WASHINGTON STATE FERRIES TWO-YEAR OPERATIONS REPORT FOR 1999/2001

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"Despite financial challenges, Washington State Ferries remains the state's number one tourist attraction and second largest mass transit system."

July 2002

Welcome to the Washington State Ferries Two-Year Operations Report for the 1999/2001 biennium. We hope you will find the information provided in this report useful in understanding the nature of the ferry system business, including operations, budgeting, and customer service. As we look back over the past two years, we are reminded of a time of organizational change and a celebration of 50 years of service to the citizens of Washington State. Despite financial challenges, Washington State Ferries remains the state's number one tourist attraction and second largest mass transit system. Washington State Ferries carried 26.6 million riders in fiscal year 2001, completing 99.6% of our 178,500 scheduled trips. This is the highest rate recorded since we began measuring service reliability in 1996.

I arrived at Washington State Ferries in January 2002. My top priority is to assure our customers that we are providing the most cost-effective service possible. Next, we need to stabilize the funding base for the ferry system and develop additional non-tariff revenue as part of our efforts to help achieve future service expansion goals. The Washington State Legislature has provided us with the funding to stay afloat, but a real solution to this issue remains critical to our future.

Despite financial challenges, ferry system employees have remained dedicated to providing safe and reliable service throughout Puget Sound. 2001 was an unusually tough year for ferry operations. Our region was hit with a major earthquake that damaged ferry terminals, and our nation was hit with terrorist attacks that called for increased security precautions. In both instances, WSF employees rose to the occasion and continued to move vehicles and passengers safely across the Sound. Improving customer service is a continued priority with the addition of website sales of monthly passes, year-round reservations on the Anacortes/Sidney route, and an email alert system for real-time service information. In addition, several WSF employees saved lives this biennium. From heart attacks to overturned boats, WSF terminal and fleet staff participated in several rescues this past year. Several acts of heroism were recognized by the U.S. Coast Guard and the American Red Cross in 2001.

On June 1, 2001, Washington State Ferries celebrated its 50th anniversary. It was a day of celebration and reflection about the importance of Washington State Ferries to the transportation infrastructure of this state. Through a series of interviews, contests, and events, we captured the rich history of ferry boating on Puget Sound with stories from riders, current and retired employees, and others about the ferry system. Artifacts, pictures, and other notable memorabilia have been placed in a time capsule that is located in the main ferry terminal at Pier 52's Colman Dock. The time capsule will be opened on June 1, 2051—the ferry system's 100th birthday.

Washington State Ferries remains a critical link in Western Washington's transportation system. The services we provide are necessary to the movement of people and commercial goods through the region. We remain optimistic that a stable source of funding will be found in the next biennium. We thank you for your continued interest in and support of the ferry system.

On behalf of all Washington State Ferries employees,

Mike Thorne
Director/CEO

01. OVERVIEW

Overview

Washington State Ferries (WSF) is the largest ferry system in the United States, serving eight counties within Washington and the Province of British Columbia in Canada. Counties served include Pierce, King, Snohomish, Kitsap, Skagit, Island, San Juan, and Jefferson Counties. The WSF system has 10 routes and 20 terminals that are served by the system's 29 vessels. This report summarizes WSF's operations during the 1999/01 biennium, during which WSF successfully responded to challenging financial circumstances, made notable improvements in the areas of safety, training and customer service, and celebrated its 50th birthday. WSF produces this document for the benefit of legislators, policy makers, and transportation commission members, as well as WSF employees, ferry users, interested public and staff from ferry systems worldwide.

The ferry system is an essential part of western Washington's highway network. It provides critical links between the urban areas on the east side of Puget Sound and the growing communities to the west on the Kitsap Peninsula, as well as more rural destinations on the Olympic Peninsula. For communities on Vashon Island and four of the San Juan Islands, WSF provides the only link for automobile travel with the mainland.

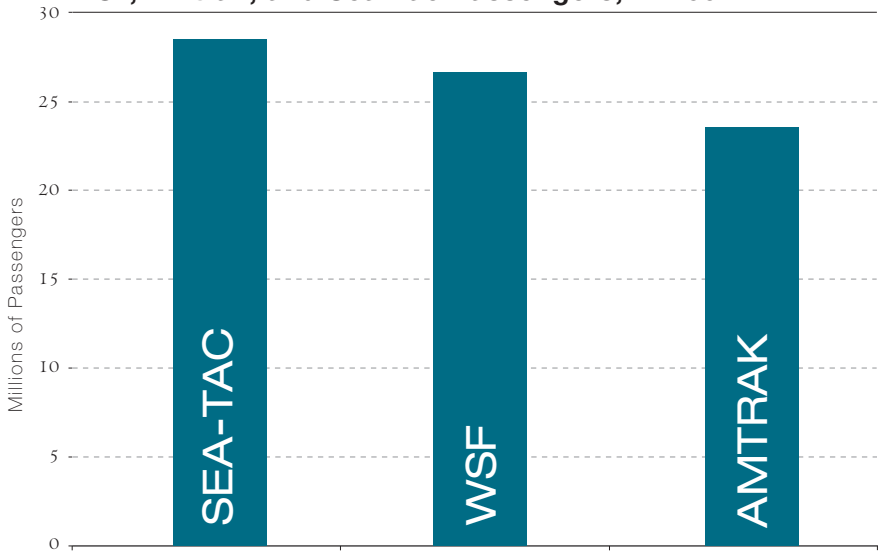
Besides serving as an extension of the highway system, WSF can also be viewed as an environmentally sound and highly efficient means of mass transit. In fiscal year 2001, the system carried approximately 19,700 walk-on passengers per day, which comprised 27% of WSF ridership. The majority (70%) of walk-on passengers use routes serving downtown Seattle, where many jobs are within walking distance of the Colman Dock terminal.

WSF is also one of the state's largest tourist attractions. The Washington State Tourism Office reports that it receives a tremendous number of inquiries regarding the ferry system. Every year, thousands of out-of-state visitors come to ride a ferry on a scenic trip through the San Juan Islands or to other destinations around Puget Sound.

In fiscal year 2001, WSF carried over 11.5 million vehicles and 26.6 million people. By comparison, Seattle-Tacoma International Airport served 28.4 million passengers and Amtrak served 23.5 million passengers nationwide in fiscal year 2001.

WSF faced a sea of change in its funding environment after the Legislature enacted the provisions of voter-approved

WSF, Amtrak, and Sea-Tac Passengers, FY2001



WSF's and SeaTac's fiscal year begins in July, while Amtrak's fiscal year begins in October.
Note: Amtrak's ridership is for the entire nation.

Initiative 695, which eliminated Motor Vehicle Excise Tax (MVET) revenues. The MVET funded approximately 82% of WSF's capital program and 20% of ferry operations, and loss of these funds presented serious financial challenges. WSF took immediate steps to respond to the loss of funding by cutting management and support staffing levels, increasing fares, emphasizing preservation projects in its capital program, and implementing service reductions.

In the midst of this financial struggle, WSF achieved many successes, including:

- Taking delivery of the *Snohomish*, WSF's second passenger-only fast ferry.
- Implementing the successful Safety Management System (SMS) throughout the entire organization and developing a policy framework for safety issues and initiatives on a systemwide basis.
- Addressing new U.S. Coast Guard's Life Saving regulations and working toward developing a comprehensive Shipboard Safety Management and Contingency Plan (SSMCP).
- Increasing its training programs to include many new safety training programs.
- Initiating a new Emergency Operation Center, which was activated for the World Trade Organization (WTO) meeting in Seattle, Year 2000 rollover (Y2K), the February 2001 Nisqually earthquake, and the September 11, 2001 terrorist attacks.

- Participating in many dramatic rescues on land and on the Puget Sound that saved lives.
- Launching a new service that allows customers to purchase monthly passenger-fare passes from WSF's web site using a credit card.
- Enabling customers to reserve space on the Anacortes/Sidney route year round via a telephone order or on-line using WSF's web site.
- Providing an email alert program that sends out real-time messages concerning specific routes.
- Upgrading the automated phone system to include "Frequently Asked Questions" information for after-hours and peak volume calls.
- Improving its popular web site (http://www.wsdot.wa.gov/ferries) by adding VesselWatch—an on-line map that shows actual vessel locations on the Sound—and Ferry Cam—web cameras that show real-time pictures at select terminals.
- Reducing the number of customer complaints by half in 2001 compared to 1999.
- Completing 99.6% of its 178,500 scheduled trips in 2001, which is the highest rate recorded since WSF began measuring service reliability in 1996.
- Reducing the number of cancelled trips per commuter per year from about 3 in 2000 to about 1.5 in 2001.
- Conducting an employee survey that showed improvements in every category compared to a previous survey in 1997.
- Improving employee communication with the publication of *Fleet Focus*, a weekly employee newsletter developed to keep employees apprised of current fleet and departmental developments.
- Developing a formal employee recognition program to acknowledge the many significant contributions made by WSF employees.

Amid the trials and triumphs that marked the 1999/01 biennium, WSF turned 50 years old. Several public events took place during 2001 to celebrate this milestone in Pacific Northwest maritime history, including festivities at Colman Dock, a "Ferry Tale" contest for passengers and employees, an essay contest for students, a floating film festival, and the creation of a time capsule to be opened on WSF's 100th birthday on June 1, 2051.

It is important to remember that the State of Washington created WSF for the purpose of providing reliable cross-Sound transportation. The State's continued support through the years has allowed WSF to become a means of mobility that thousands rely upon every day. Washington's citizens can take pride in the ferry system they have created, and as a new long-term funding source is sought, they can have confidence that their investment in WSF is a sound one.

Students enjoying WSF's 50th Anniversary activities.

Anniversary festivities at Colman Dock.

02. KEY THEMES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Response to Financial Instability

Sailing into the 21st Century

WSF entered the 1999/01 biennium with incredible momentum. A new high-speed passenger ferry and three new Jumbo Mark II auto/passenger ferries were delivered to WSF. Ferry customers enjoyed the ripple effect on systemwide capacity as the new vessels allowed for capacity upgrades on many routes throughout the system. High-speed, passenger-only ferry service to Bremerton was finally a reality, and ridership more than doubled with the introduction of the passenger-only fast ferry. Additionally, in 1998 taxpayers approved Referendum 49, which funded passenger-only ferry service from Kingston and Southworth to Seattle and appropriated funds to address the increasing preservation needs of WSF's rapidly growing system.

Referendum 49 provided additional funding for the State's transportation system by transferring additional funding from the Motor Vehicle Excise Tax (MVET). The Legislature then appropriated a record $289 million to the ferry capital program, including $111 million from the proceeds of Referendum 49 bonds for the 1999/01 biennium. Based on projected ridership growth and the policy decision to expand the passenger-only program, WSF was positioned to provide expanded service and address the increasing preservation needs of the system. WSF's operating account had a fund balance of $110 million, an amount necessary to support the increased levels of service for at least 10 years. But this momentum was not to be sustained. What happened?

Initiative 695

In November 1999, voters approved Initiative 695 (I-695), which abolished the MVET. Although the initiative was later declared unconstitutional by the state Supreme Court, the Legislature separately enacted and preserved the provisions of I-695. The removal of the MVET constrained the revenue source intended to pay for the Referendum 49 bonds. The net result was that the state's transportation system lost both its MVET revenue and the Referendum 49 bond revenue. This was particularly devastating for WSF.

Approximately 82% of WSF's capital program funding came from a combination of MVET revenue and Referendum 49 bond proceeds. MVET revenue also represented 20% of WSF's ferry operating revenues. With the passage of I-695, those funds evaporated. Prior to I-695, the ferry operating account had a fund balance of approximately $110 million, which was intended to help finance the expansion of passenger-only service. With the passage of I-695, plans for passenger-only ferry expansion were shelved and the $110 million was used to offset revenue loss caused by eliminating the MVET. To meet the funding constraints imposed by I-695, WSF embarked on an action plan.

Efficiencies in Management

Immediately following the passage of I-695, WSF conducted a thorough review of all administrative staff and ultimately eliminated 92 management, engineering, and administrative support positions (both filled and vacant) to reflect the smaller program. WSF eliminated these positions in the first quarter of 2000, which reduced the number of management and support staff positions by 29%. This reduced the number of WSF management positions to 43, representing 2.4% of its 1,800 employees.

Throughout this process WSF kept employees informed about the effects of the passage of I-695. Immediately after the initiative passed, WSF Director/CEO Paul Green scheduled meetings with employees to discuss the effects of I-695. Weekly editions of *Fleet Focus*, WSF's employee newsletter, described the latest developments. Briefings were held for managers and employees concerning staff reductions to explain ground rules, process, and timetable for the required reductions. A series of meetings with WSF unions focused on the impact of I-695 and the workforce reductions that would follow.

Service Reductions

In response to the revenue loss created by the elimination of MVET funds, the Transportation Commission prepared a supplemental budget entitled "Bare Bones," which reduced WSF's annual operating program by $22 million, including $16 million in annual service cuts. The Commission's "Bare Bones" proposal included:

- Eliminating Anacortes/Sidney B.C. route and the San Juan inter-island routes between October and May,
- Eliminating all passenger-only service,
- Reducing night and/or midday service on most routes,
- Increasing the number of tied-up vessels to ten.

This proposal was forwarded to Governor Locke in December 1999. After extensive deliberations, the 2000 Legislature settled on an $11 million annual reduction to WSF's operating program, including $6 million in annual, systemwide service reductions.

Before any specific service reductions were made, WSF embarked on an ambitious community outreach program to gather information to determine which sailings could be eliminated with the least impact on its customers. WSF held a series of ten community meetings to

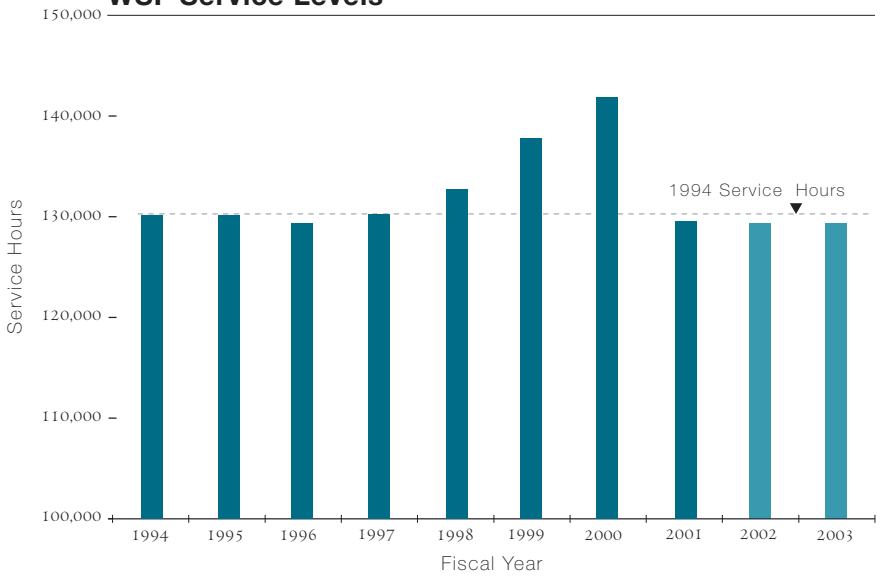
discuss the impact of I-695 on the ferry system and proposed service reductions. Information gathered from this outreach was coupled with operational and financial data to determine several service reduction scenarios, which were combined through an iterative process to determine the final service eliminations.

The ferry service eliminated in Spring 2000 included:

- The Monday through Thursday summer midnight sailing from Anacortes to the San Juan Islands;
- The Sunday through Thursday 1:00 a.m. sailing from Edmonds to Kingston;
- Early morning and evening service on the second vessel assigned to Keystone/Port Townsend route during the summer months;
- The summer-only third vessel on the Seattle/Bainbridge Island route;
- Four late-night sailings on the Seattle/Bremerton route on Fridays and Saturdays;
- Weekend passenger-only service on the Seattle/Bremerton route;
- Weekend passenger-only service on the Seattle/Vashon Island route; and
- Late evening service on the Point Defiance/Tahlequah run.

WSF community outreach regarding proposed service reductions.

WSF Service Levels



Objectives for the service cuts included reducing operating and capital costs while maintaining peak hour vehicle and passenger capacity and summer tourist route capacity. Reductions in ferry service began June 18, 2000. Three vessels were idled, including the *Nisqually*, the *Evergreen State,* and the *Hyak*. The latter two vessels were brought into service during the biennium to relieve other vessels on an "as-needed" basis. WSF delivered 142,000 hours of ferry service in fiscal year 2000 and 129,500 hours in fiscal year 2001—a reduction of 10%. This returned WSF to below its 1994 service level. The Legislative Joint Task Force on Ferries recommended that the reduced service should continue in the 2001/03 biennium.

As expected, a reduction in WSF's ridership was experienced in 2001 due to the service reductions. Ridership is expected to decline slightly in the future due to the effects of sustaining the reduced service level and the ongoing fare increases.

Legislative Studies

During the 1999/01 biennium, WSF participated in three significant legislative studies concerning the operation and funding of WSF. The Blue Ribbon Commission on Transportation (BRCT), a 47-member body appointed by the Governor and Legislature, was established in 1998 for the purpose of reviewing the state's entire transportation system, including needed facilities and how they will be funded. Though its work was begun prior to the passage of I-695, the initiative's impact on transportation funding could not be ignored. WSF's Tariff Policy Committee

assisted the BRCT in evaluating the elasticity of demand for ferry services, and long-term funding and service scenarios. The BRCT presented recommendations to the Governor in December 2000. This report is available on-line at http://ltc.leg.wa.gov/brct

During the 2000 legislative session, the Legislature established the Joint Task Force on Ferries (JTFF) to recommend the future direction of the system. It included legislators from ferry and non-ferry districts, members of ferry advisory committees, non-ferry users, and representatives of unions, transit, WSF, the Governor's Office of Financial Management, industry, and tourism. The task force was asked to determine the percentage of operating expenses that fares should cover; explore options for cost and service reductions; assess the potential role of the private sector in ferry transportation; and evaluate the short and long-term capital needs of the system. The JTFF affirmed the importance of the ferry system as part of the state's highway network and concluded that the state is the most efficient provider of passenger-only ferry services. The document is available on-line at http://htc.leg.wa.gov/Ferries.pdf

Legislation passed during the 2000 session of the Washington State Legislature directed the Office of Financial Management (OFM) to conduct a performance audit of WSF's Capital Improvement Program. OFM instructed the auditors to determine "whether the ferry system is acquiring, protecting, and using its resources economically and efficiently; the causes of inefficiencies and uneconomical practices; and whether the ferry system has complied with laws and regulation governing economy and efficiency. This audit shall build on audits performed under the direction of the Joint Legislative Audit and Review Committee on Ferry Capital Operations."

The performance audit stated, "that the Washington State Ferries' current decision-making process/model for capital investments is effective and sound. In addition, WSF has followed all statutes, rules, and regulations applicable to public procurement of preservation and construction services. Washington State Ferries has taken a progressive approach in a number of areas concerning the identification and assessment of the investments needed to assure vessels and terminals are operating in a safe and sound condition. In addition, it has pursued various procurement methods to increase cost-effectiveness and timeliness". The audit produced several recommendations, and WSF is now in compliance with all recommendations. The full report can be viewed on line at http://www.ofm.wa.gov/wsf/auditreport.pdf

Key Recommendations from Legislative Studies

Blue Ribbon Commission on Transportation

- Adopt WSF Tariff Policy Committee's recommended time-based-fare structure to promote route equity.
- Implement premium pricing for passenger-only service.
- Achieve an 80% farebox cost recovery rate for operating costs within six years.

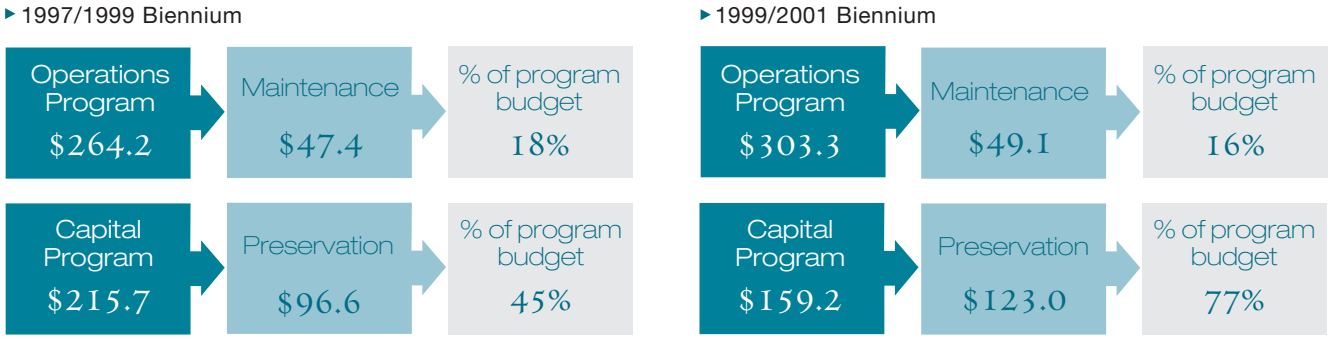
Joint Task Force on Ferries

- Ferries are part of the state's highway system and should remain open.
- The state should continue to provide and maintain both auto and passenger-only ferry service.
- WSF should maintain an in-house maintenance and preservation facility.
- The majority of ferry users recognize the need to pay a greater share of operating costs. The Legislature should pass a waiver of I-601 for ferry tariffs so that the Transportation Commission can phase in tariff increases that will raise farebox recovery to 80% of operating costs over six years.
- WSF should continue to provide the reduced level of service funded in the 1999/01 supplemental budget through the 2001/03 biennium, including passenger-only service.
- Short-term and long-term capital preservation requirements should be met in order to ensure the delivery of operating services. The Legislature should fund the ferry capital program to a level that allows the ferry system to catch-up and keep-up with deferred life-cycle preservation and maintenance needs and replace aging vessels and terminals as needed.
- The state needs to do a better job of telling citizens what they are getting for their ferry operating and capital investments.
- WSF must continue to adopt operational efficiencies.
- The Legislature should review ferry governance options.

Performance Audit

- WSF should incorporate an economic factor to the condition rating of the life-cycle model systems.
- WSF needs to improve internal contract administration.
- WSF's contracting process should be enhanced to allow a modified Request For Proposal process for new ferry construction.
- WSF's maintenance contracting process should be streamlined where there is limited competition.
- WSF's authority to utilize the Request for Proposal process to acquire equipment and systems should be expanded.

Maintenance and Preservation Expenditures



Focus on Maintenance and Preservation

In response to the Joint Task Force on Ferries (JTFF), WSF shifted its focus from expanding its people and vehicle moving capacity to protecting the public's investment in its existing facilities. WSF protects its terminals, vessels, and maintenance facilities through maintenance activities and capital preservation projects. Maintenance is a systematic day-to-day process used to control the deterioration of facilities and is funded through WSF's operating budget. Capital preservation consists of construction activities that extend the useful life or renew an existing facility, but do not change the capacity of the facility to meet travel demand. Preservation projects are funded by the capital budget. The difference between maintenance and capital preservation is based on the cost and longevity of the work.

During the 1999/01 biennium, WSF spent $49.1 million in operating funds for maintenance activities, allocating $32.9 million for vessels and $16.2 million for terminals, and $123.0 million in capital funds to protect its existing infrastructure, allocating $78.4 million for vessel preservation, $37.6 million for terminal preservation and $7.0 million for emergency repairs. This marked a dramatic shift towards preservation in the 1999/01 biennium. In the past biennium, WSF spent about 77% of its Capital Program funds on preservation compared to 45% in the 1997/99 biennium.

WSF's vessels and terminals are made up of approximately 2,600 systems and structures, which are divided into 'Category 1' (vital) and 'Category 2' (all other) systems and structures. Category 1 systems are those needed for the safety of people, vessels, terminals and the environment. Generally, these are systems and structures needed to load, start, continue in motion, land, and unload a vessel. Category 2 systems are all other non-vital systems. WSF uses a condition rating to monitor and manage its systems, which is defined as "the percentage of vessel and terminal systems and structures that are operating within their life cycles at a particular point in time."

In the 1999/01 biennium, WSF preserved 157 terminal and vessel systems and structures and ended the biennium with a life-cycle rating of 75% for Category 1 (vital) systems and structures, and 59% for Category 2 (other) infrastructure. The JTFF recommended raising the condition rating for Category 1 systems to between 90% and 100%, and maintaining the condition rating for Category 2 systems in the 60% to 80% range by 2011. However, the JTFF concluded that WSF's life-cycle ratings for its capital assets will decline without increased investments beyond currently available revenue sources.

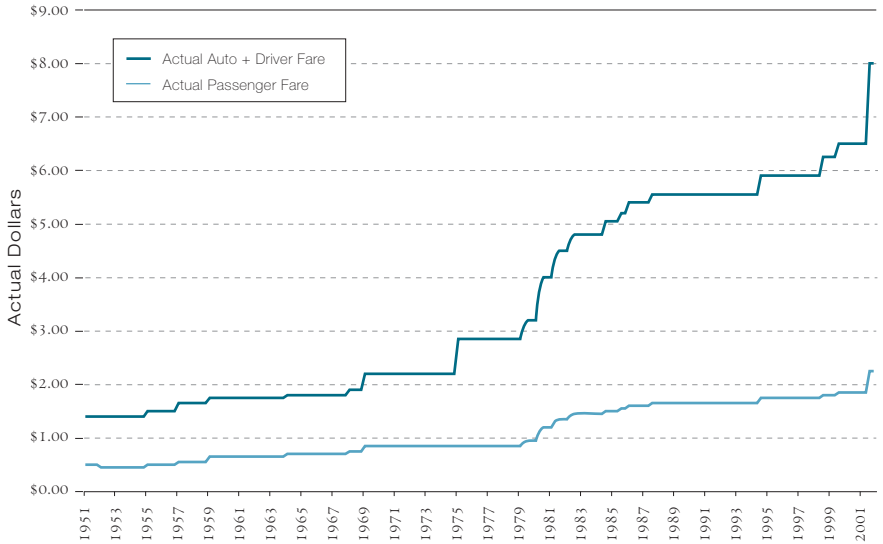
Fare Increase

In addition to adjusting staffing to reflect the smaller program and implementing service reductions, WSF's Tariff Policy Committee (TPC) continued to scrutinize fares in light of the new financial challenges in the 1999/01 biennium. The TPC has been involved in on-going fares assessment since 1991. WSF fares have not kept pace with inflation over the past 40 years. When historical fares are adjusted to year 2000 dollars based on the Seattle Consumer Price Index, it is evident that fares have actually declined during this period. In 2000, auto-driver fares and passenger fares were 39% and 53% lower than their 1960 levels respectively. Even with the fare increase in June 2001, auto-driver and passenger fares are similar to their levels in the mid and late 1970s.

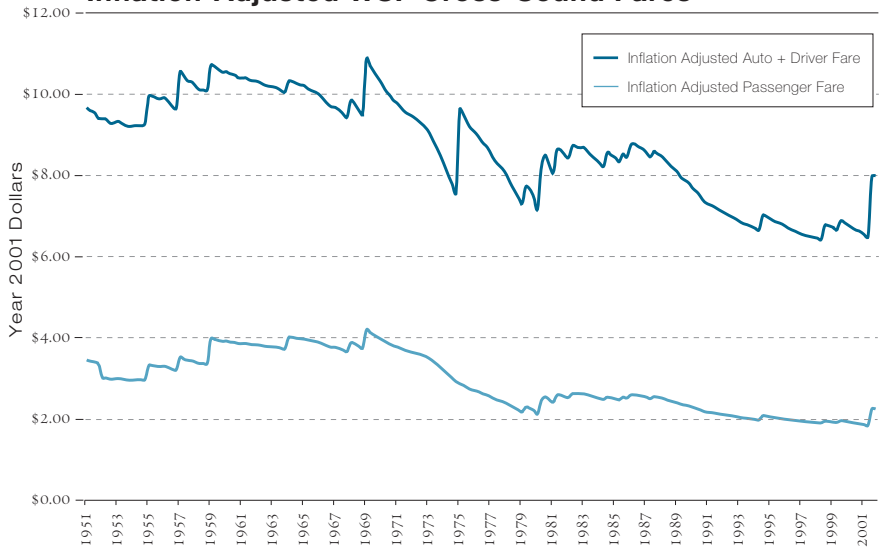
The TPC's work in the 1999/01 biennium included presenting three separate fare proposals to the Transportation Commission: providing technical support to the Legislature as it dealt with the ramifications of I-695, developing a new tariff structure to improve equity between routes, and helping to enact the largest fare increase in WSF's history. The TPC's work reflected the recommendations of the Blue Ribbon Committee on Transportation and the Joint Task Force on Ferries.

The TPC also took steps toward achieving route equity by recommending a time-based fare structure in which the space on the car deck operates somewhat like a parking lot. Users pay for the amount of space they use and the length of time they occupy that space. To avoid pushing traffic from one route onto another, two travel sheds were identified in which two or more routes were interchangeable. These travel sheds included: 1) routes to and from Vashon Island, and 2) the Kingston, Bainbridge and Bremerton routes. Within these travel sheds, a single-fare structure would be implemented. The TPC suggested a phased approach to implementing the time-based fare structure.

Actual WSF Cross-Sound Fares



Inflation-Adjusted WSF Cross-Sound Fares



In addition to improving equity among routes, the TPC addressed the need to increase fare revenue in the wake of I-695. With the ultimate goal of achieving 80% farebox recovery recommended by both the BRTC and the JTFF, the TPC evaluated the effect that different levels of fare increases would have on ridership and revenue. It was assumed that an increase in fares would diminish ridership to some degree. After analyzing the overall impact of several scenarios, the TPC recommended an average across-the-board fare increase of 20% to be implemented June 2001. In addition to the 20% fare increase, WSF imposed a flat $1.00 surcharge on passenger-only fares, to be collected each way. Finally, the committee recommended that WSF discontinue the practice of providing refunds on unused portions of coupon books.

WSF conducted an extensive public outreach program to discuss the proposed changes in the spring of 2001. During February and March 2001, thirteen public meetings were held to receive public comment on the TPC's fare proposal. During the public comment period, WSF received 1,472 pieces of correspondence related to the fare increase. Public input contributed significantly to the final proposals that were adopted.

The June 2001 fare increase was identified as the first of a series of fare increases over the next several years to achieve an 80% farebox recovery of operating costs as recommended by the BRTC and the JTFF. The magnitude of future fare increases will depend on how they affect ridership, on budget requirements, and other factors. The observed impact of the fare increase on ridership and revenue will influence WSF's future decisions concerning fare increases.

WSF community outreach regarding proposed fare increase.

One Way Auto/Driver and Passenger Fares

	1999/01 Fares			Fares Effective June 3, 2001		
	Passenger Full Fare	Auto/Driver Full Fare	Peak Season Auto/Driver Full Fare	Passenger Full Fare	Auto/Driver Full Fare	Peak Season Auto/Driver Full Fare
Cross Sound Routes						
Edmonds/Kingston [1]	$1.85	$6.50	$8.25	$2.25	$8.00	$10.00
Seattle/Bainbridge Island [1]	1.85	6.50	8.25	2.25	8.00	10.00
Seattle/Bremerton [1]	1.85	6.50	8.25	2.25	8.00	10.00
Seattle/Bremerton Passenger-Only [2]	1.85	NA	NA	3.25	NA	NA
Fauntleroy/Southworth [1]	1.85	6.50	8.25	2.00	7.00	8.75
Seattle/Vashon Island Passenger-Only [2]	1.85	NA	NA	3.25	NA	NA
Port Townsend/Keystone [3]	1.85	6.50	8.25	2.00	7.00	8.75
Short Routes						
Southworth/Vashon Island [4]	$1.25	$4.50	$5.75	1.45	5.13	6.50
Point Defiance/Tahlequah [4]	1.25	4.50	5.75	1.45	5.13	6.50
Mukilteo/Clinton [1]	1.25	4.50	5.75	1.35	5.00	6.25
Fauntleroy/Vashon Island [4]	1.25	4.50	5.75	1.45	5.13	6.50
San Juan Island Routes						
Anacortes/Lopez [5]	$2.65	$6.65	$8.40	3.40	8.50	10.63
Anacortes/Shaw/Orcas [5]	2.65	7.90	9.90	3.40	10.00	12.50
Anacortes/Friday Harbor [5]	2.65	8.90	11.15	3.40	11.25	14.13
Inter Island [5]	No Charge	3.75	4.75	No Charge	4.50	5.63
San Juan Islands to Sidney B.C. [3]	4.00	9.00	21.25	4.25	9.75	21.25
Anacortes/Sidney B.C. [3]	9.10	24.75	41.00	11.00	29.75	41.00

1. Round trip passenger fares are collected westbound only. Vehicle/driver fares are collected each way.
2. Round trip passenger fares are collected westbound only.
3. Passenger and vehicle/driver fares are collected each way.
4. Round trip passenger and vehicle/driver fares are collected to Vashon Island only.
5. Round trip passenger and vehicle/driver fares are collected westbound only.

NA - Not Applicable

Safety & Training

Despite the financial challenges experienced in the 1999/01 biennium, WSF's commitment to safety and training did not waiver. Although WSF had to cut both personnel and service in the 1999/01 biennium, it did not cut back on its safety and training programs, and in fact, increased expenditures in these areas. During the biennium, WSF updated safety procedures throughout its entire system, addressed new lifesaving standards initiated by the U.S. Coast Guard, continued its on-going employee training program, and participated in multi-agency emergency preparedness activities. The importance of safety and training was recognized by the legislature, which authorized funding to implement these programs. Because of these proactive steps to improve safety and training, WSF was better prepared to respond to heightened security and safety requirements after the September 11, 2001 terrorist attacks.

Safety Management System

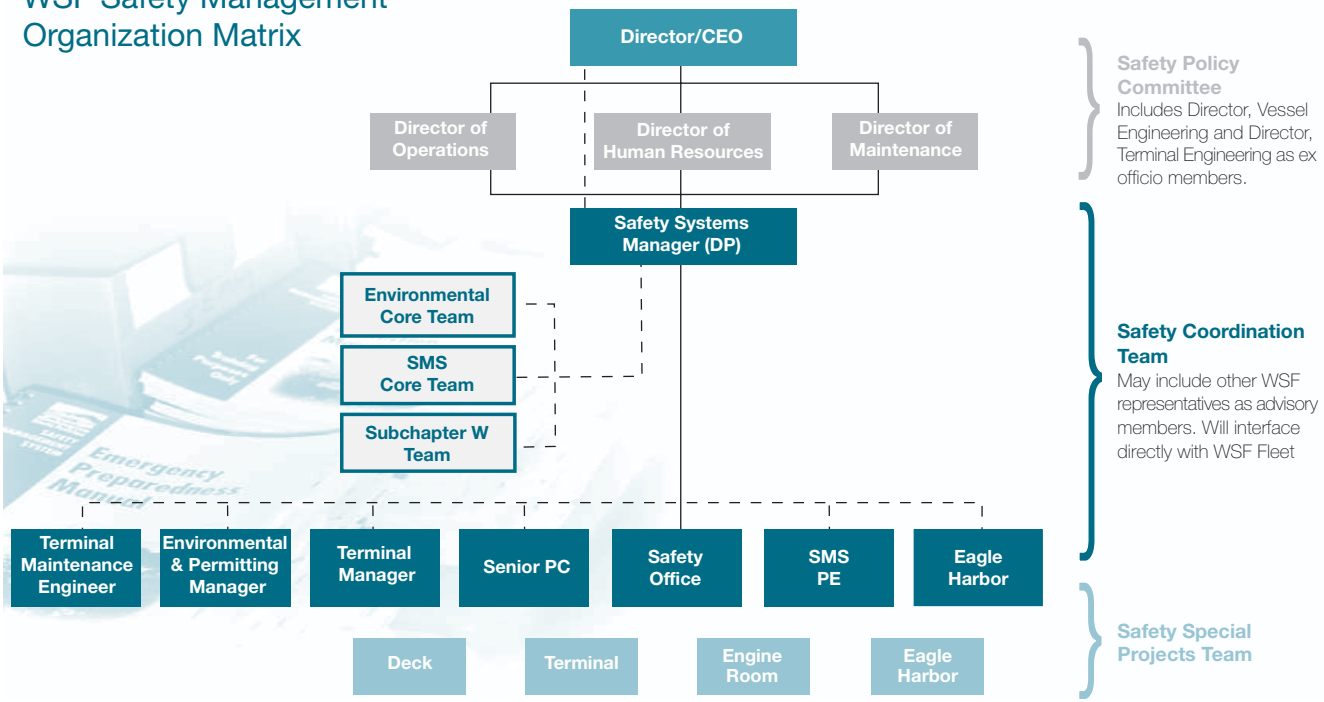
In 1998, WSF successfully implemented a limited Safety Management System (SMS) on its international route from Anacortes, Washington to Sidney, British Columbia to comply with International Safety Management (ISM) Code requirements. This included developing a series of manuals, training tools, and corrective action procedures for employees to report safety concerns. After successfully implementing SMS on its international route, WSF leaders decided to voluntarily implement SMS throughout the entire organization. This expanded SMS to a comprehensive system that included all of WSF's domestic and international vessel and terminal operations, as well as maintenance activities.

An SMS Core Team was chartered to develop and implement this new system. By the end of the process, WSF had developed or updated 40 unique SMS manuals that defined over 1,000 safety procedures for all of its terminal facilities, vessels, and routes. It also provided direct fleet and shoreside training about the use of these safety procedures to over 400 employees, who in turn coordinated training of another 1,100 employees.

SMS Enhancements

- Provides a system for management to communicate policies and expectations about safety and environmental protection to employees.
- Provides consistent and clearly written procedures to guide WSF employees in the daily execution of their duties.
- Incorporates and consolidates regulatory requirements from external agencies such as the U.S. Coast Guard and Department of Ecology.
- Provides a means for employees to report safety concerns.

WSF Safety Management Organization Matrix



A significant benefit of SMS has been the increased cross-departmental dialogue between WSF directors and managers on SMS and other issues. This is due to the creation of the Safety Management Organization Matrix, which was structured to support SMS program activities and continuous improvement. That matrix structure is also being utilized to build a more effective training program. There is an increased awareness at all levels of the connection between establishing policy and enacting procedures. This ongoing commitment to SMS is bringing about a new appreciation between ship and shore, which promises to enhance morale and instill the belief that safety is everyone's responsibility.

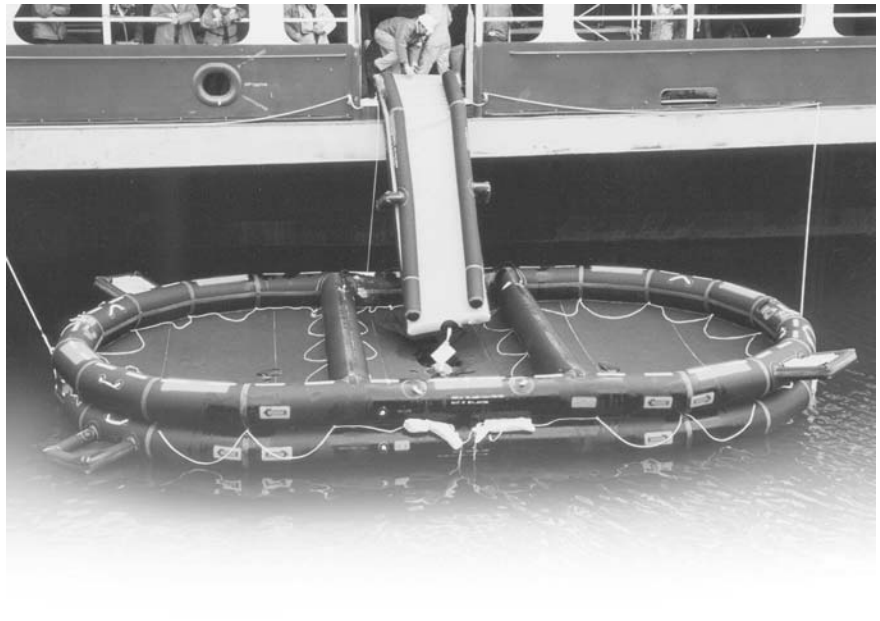
For its outstanding effort, WSF's SMS Core Team was honored with a national Trailblazer Quality Team Recognition Award from the Association of State Highway and Transportation Officials (AASHTO). This award recognizes teams of transportation employees across the country that have demonstrated performance excellence and contributed to their agencies through successful teamwork. The SMS Core Team is the first AASHTO award recipient ever at WSF, and is one of only 22 teams nationwide to earn this coveted award.

Coast Guard Life Saving Regulations

WSF has continued its on-going working relationship with the U.S. Coast Guard to address new passenger vessel lifesaving regulations. To comply with these provisions, WSF is required to perform a safety assessment that identifies the risks associated with ferry operations within the Puget Sound and develop a comprehensive Shipboard Safety Management and Contingency Plan (SSMCP) to address these risks.

An independent Blue Ribbon Panel evaluated WSF's operational safety during a risk assessment in the 1997/99 biennium. This assessment concluded that WSF's historical safety record compares favorably with other maritime and non-maritime surface transportation modes, and the accident rate for WSF vessels was significantly lower than other vessels on Puget Sound. It also recommended specific improvements. WSF has made progress on all of those recommendations.

The SSMCP elements are designed to minimize the likelihood of an accident occurring, and if one does occur, to maximize response efficiency and passenger safety. All applicable elements of the SSMCP will be integrated into WSF's Safety Management System. The SSMCP includes appropriate shipboard management policies and detailed operational procedures. One of the primary elements related to passenger safety is the evacuation strategy. WSF established self-sufficient response objectives regarding the capacity of on-board survival craft that were tailored to the specific passenger loads on each of its vessels. The main objective is to provide sufficient emergency passenger capacity, through onboard or readily available survival crafts, to accommodate 100% of all peak passenger loads.



Training excercise with life rafts.

WSF's SSMCP Vessel Equipment List

- Four marine evacuation slide (MES) systems on all vehicle ferries. Each MES has a capacity of 150 persons, for a total of passenger capacity of 600 persons.
- Four additional 150-person life rafts on the Jumbo Mark II ferries, which can accommodate another 600 passengers.
- Towing bridles for each vehicle ferry, so one ferry could tow a distressed ferry to safety.
- Zodiac Hurricanes rescue boats to enhance speed of deployment, reliability and capability of operations.

Other Safety Programs

WSF partnered with the U.S. Coast Guard on other safety programs in the 1999/01 biennium. One example of this cooperative approach to safety was the Crew Endurance Study conducted by the U.S. Coast Guard Research and Development Center in August 2000. This study evaluated vessel working conditions and how they affect the crew's ability to perform. Participants wore a wrist monitor that collected daily activity and light-level data for a one-month period. As a result of this study, crew schedules were adjusted to avoid the most fatiguing watch routines.

WSF continues its aggressive safety, security and environmental protection agenda for the next biennium. The sweeping lifesaving equipment installations are on schedule to be completed across the fleet by October 2003, including the corresponding fleet training. In the wake of the September 2001 terrorist attacks WSF will be aggressively pursuing, in concert with the U.S. Coast Guard and Washington State Patrol, initiatives to enhance WSF's overall security posture.

Training

WSF significantly increased its training program to implement the safety improvements described previously. The major programs included training for WSF's new SMS, the internationally mandated Standards of Training, Certification and Watchkeeping for Seafarers (STCW), and the Coast Guard lifesaving regulations.

Both the SMS and STCW training programs involved developing policy and curriculum, refining safety training practices, preparing analyses, developing auxiliary training manuals and videos, and collaborating with the Coast Guard. SMS, in particular, was designed to ensure that best business practices are clearly defined and documented to conform to regulatory requirements, and to provide opportunities for continuous improvement through input from employees.

The Training Organization was also asked to take the lead on the implementation of Phase 1 of the new U.S. Coast Guard lifesaving regulations, which went into effect in 2000. The regulations required enhancements in lifesaving protocols and equipment. The WSF plan included an updated Firefighting and Safety Training Manual, emergency contingency plans, new vessel signage, revised safety training guidelines for on-board food service workers, installation of new safety equipment, comprehensive initial and refresher training for all vessel personnel and new training logbooks aboard all vessels.

Another safety focal point was revising procedures for proper handling, storage, and disposal of hazardous waste in compliance with federal and state hazardous waste regulations. This initiative, a joint effort of WSF and the Washington State Environmental Affairs Office, included fleetwide training, creation of an agency spill response plan, and development of a training video.

WSF employees in a firefighting training excercise.

Other WSF Training

- Safety training for deck, engine, and maintenance employees including advanced first aid, Labor and Industry standards and use of an automated external defibrillator.
- Employee development classes including training in Americans with Disabilities Act (ADA), diversity, ethics, customer service and supervisory skills.
- Technical training classes including radar familiarization, passenger-only fast ferry, terminal skills review and instructor certification.

WSF's Training Organization underwent significant changes in the 1999/01 biennium. A Training Coordination Team and Training Policy Committee were established to facilitate communication and planning with the workgroups, offices, and departments who are the primary stakeholders in training initiatives. Through this process, the Training Organization addressed several long-term policy issues by developing a comprehensive training plan and budget, developing training matrices for vessel and terminal employees, enhancing automated training documentation and creating customized budget reports for improved accountability. In the 1999/01 biennium, WSF personnel spent approximately 107,000 hours in training. This training level represents a 212% increase in the number of training hours compared to the 1997/99 biennium.

In the future, WSF's Training Organization will continue its STCW and Coast Guard lifesaving training, and technical training with a new Vessel Familiarization training program. The latter program will standardize training aboard WSF vessels to ensure all fleet personnel are trained on essential vessel systems and equipment. The comprehensive nature of this important program will require developing 32 individual vessel specific training manuals, revising WSF operating policies and procedures, and developing a system to dispatch qualified/trained personnel to each vessel.

Beyond the Call of Duty

Training provided by WSF pays off for Washington State citizens as many WSF employees heroically go "beyond the call of duty" in lifesaving rescues on and around the Puget Sound, including five significant rescues this biennium.

On November 4, 2000, the crew of the *Kitsap* responded to a U.S. Coast Guard emergency broadcast and deviated from its Seattle-Bremerton route to investigate a report of a partially submerged boat and persons in the water. Because sea and weather conditions were not optimal for a rescue boat, the captain maneuvered the 328-foot, Issaquah-class ferry into a pick-up position and both survivors were brought on-board. Both men were treated for hypothermia by the vessel crew while on their way back to Seattle to meet emergency crews assembling at Colman Dock.

On December 7, 2000, the *Chinook's* crew helped save a woman suffering a heart attack. The crew used the automatic external defibrillator (AED) machine on the Chinook to give the woman several shocks and then began cardiopulmonary resuscitation. The woman began breathing shortly thereafter. She was then transported to a local hospital by Bremerton Fire District medics.

On February 8, 2001, crews from the *Sealth* and *Evergreen State* were instrumental in the rescue of two men in the San Juans. On their eastbound trip from Lopez Island, the *Sealth's* crew spotted an empty Zodiac rigid hull inflatable boat bouncing across Rosario Strait. The captain turned the ferry to pursue the boat and investigate the situation. On its westbound trip from Anacortes, the *Evergreen State* observed the *Sealth* pursuing the boat. The vessel captains quickly decided that the *Evergreen State* was in a better position to pursue the empty craft, while the Sealth would range south to search for survivors. In choppy seas and with a strong ebb tide, the *Evergreen State* crew pursued and retrieved the small craft. Soon the U.S. Coast Guard arrived to take over the search for survivors. The search ended successfully that evening, when the boat's two former occupants were found cold and tired, but alive thanks to their survival suits, on the shores of Burrows Island.

On March 3, 2001, the crew from the *Spokane* witnessed a vehicle driving off the bluff near the Kingston ferry terminal. The captain launched a rescue boat and Kingston terminal employees ran to the beach to assist the trapped motorist. Firefighters soon arrived to remove the vehicle doors and cut the 19-year-old victim out of his seatbelt and placed him on a backboard. He was then taken on the rescue boat to the dock where he was airlifted to Harborview Medical Center in Seattle.

On the evening of July 10, 2001, the crew from the *Hyak* and ferry passengers heard cries for help from the water as the ferry entered Rich Passage. The captain stopped the vessel, lookouts were posted, and the rescue boat was prepared for launching. Once the two men in the water just off Orchard Point were spotted, the crew reacted quickly and rescued them. The crew then cared for both men, one of whom was suffering from extreme hypothermia.

In addition to these spectacular rescues, WSF vessel crews are always on the watch throughout the Puget Sound and assist boaters and the U.S. Coast Guard on a regular basis. WSF personnel are recognized internally for their heroic acts, but some rescues are also acclaimed by other organizations. Representatives from the U.S. Coast Guard recognized

Senator Patty Murray and Doug MacDonald presenting the Hyak's crew and WSF passenger with the public service commendation.

and presented awards to the captain and crew of the *Kitsap* for their dramatic rescue in November 2000. Crew members from the *Chinook* were recognized for their courage, kindness, and unselfish character by the American Red Cross for assisting the woman suffering from a heart attack at the Bremerton terminal. Representatives from the U.S. Coast Guard presented the captain and crew of the *Hyak* with a Public Service Commendation for their exemplary performance during the July 2001 rescue. The commendation concluded that, "it is a great comfort to the boating public, and to the Coast Guard, to know that such skilled and willing resources ply the waters of Puget Sound."

Emergency Preparedness

Emergency preparedness has also been a primary focus for WSF over the 1999/01 biennium. In the past, all emergency operations were coordinated through WSF's Operations Center, which is staffed 24-hours per day, 365 days per year at Colman Dock. In September 1999, WSF initiated its Emergency Operations Center, also located at Colman Dock, which becomes the Central Puget Sound's Unified Command Center during a major ferry vessel emergency.

WSF participating in a multi-agency emergency excercise.

Almost immediately, WSF's Emergency Operations Center was activated for three significant events in 1999—a coordinated multi-agency vessel emergency exercise, the World Trade Organization (WTO) meeting in Seattle, and Year 2000 rollover (Y2K). In September 1999, WSF joined the U.S. Coast Guard, and the City of Seattle Fire Department's Special Operation Units in a simulation exercise involving the release of an unknown hazardous material substance onboard a ferry. The event was a real-world test of communications, a demonstration of shipboard response to a mass casualties incident, and a test of the Unified Command Center. It involved helicopter airlift operations, airlift medical evacuation, ship-to-ship-at-sea passenger evacuation, and a demonstration of basic personnel and equipment decontamination methods.

In November 1999, the Emergency Operations Center was activated for four days in response to the WTO event and ensuing riots in Seattle. The Emergency Operations Center was coordinated with Washington State Patrol to provide for State Trooper presence onboard Seattle-bound ferries and at Colman Dock. No major problems occurred within the ferry system during WTO.
Then, in December 1999, the Emergency Operations Center was activated to support WSF vessels and terminals during the Year 2000 date change event. No significant system failure occurred within WSF during the rollover period.

In February 2001, the Emergency Operations Center was activated to respond to the 6.5-magnitude Nisqually earthquake that shook the Puget Sound. Immediately after the quake, WSF requested that all ferries stand off from their respective terminals for 30 minutes in order to ride out any quake-induced wave action. WSF inspected all 20 terminals after the earthquake and found that four experienced some damage—Colman Dock, Vashon, Bremerton, and Fauntleroy terminals. Damage ranged from settling sea walls to sheared bolts. A total of 17 sailings were cancelled after the quake, but WSF was able to resume safe service for its customers soon after the emergency.

The EOC was activated the morning of September 11, 2001 in response to the terrorist attacks on the east coast and the heightened security procedures that followed, WSF Pilot Houses were immediately locked down and all WSF vessels (except for the islands) went to passenger-only mode. When U.S. - Canada border was closed, WSF coordinated closely with immigration and customs officials concerning passengers on the Anacortes-Sidney, B.C. run. The EOC continued to operate for several days until the situation was stabilized.

WSF also participated in several exercises and training sessions organized by other agencies this biennium. The simulations included a response to an oil spill, a downed aircraft, an earthquake and possible tsunamis, and a nuclear weapons accident at Bangor. In the future, WSF plans to continue its participation in multi-agency emergency exercises and training sessions to enhance public safety throughout the Puget Sound region.

Changes to Customer Service

In addition to enhancing safety and training throughout its system, WSF added new services to improve the customer's ability to obtain and utilize information quickly and effectively. Significant projects completed this past biennium include:

- On-line Monthly Passes. This service was launched in May 2001 and allows customers to purchase Central Sound monthly passenger-fare passes from WSF's web site using a credit card. Formerly, these passes were only available from employers participating in the employer pass program. WSF's existing staff launched this new activity, no additional employees were added.
- Year-round Ferry Reservations for Anacortes/Sidney Route. This feature allows customers to reserve space on the Anacortes/Sidney route via a telephone order or on-line using WSF's web site.
- Email Alert Program. This program, which was started in 1999, allows customers with an email address to sign up for real-time messages concerning particular routes of interest. The number of participating customers has increased from 500 in 1999 to about 8,000 in 2001. Because of the large numbers, WSF will be enhancing this program so customers can select only service disruption messages, or all alerts for their route(s). This feature is expected to be implemented in May 2002. The email alert program has reduced phone calls to WSF by 41%.
- Automated Phone System. This service was upgraded to include "Frequently Asked Questions" information for after-hours calls and peak volume calls. It includes information on routes, schedules, fares, WSF web site address, approximate wait times at terminals and international trips to Victoria, British Columbia via Sidney, B.C.

WSF's most popular customer service is its web site (http://www.wsdot.wa.gov/ferries), which was updated this biennium to include a new look and several new features such as a fare calculator, on-line purchase page, improved alerts, and comprehensive information about WSF's ADA (Americans with Disabilities Act) compliance. Web site visits have increased since the redesign and customer comments show their appreciation for WSF's efforts to make the site more user-friendly.

WSF also improved the existing schedule and route pages based on input from customers. Two innovative features on the web site include:

- VesselWatch. WSF created an on-line map that allows customers to see actual vessel locations on the Sound. WSF uses Global Positioning System (GPS) information from each vessel to update the map every three minutes. This technology will also enable WSF to capture and report on real-time service delivery.
- FerryCam. WSF installed web cameras at selected terminals throughout the system including: Colman Dock in Seattle, Bainbridge Island, Edmonds, Kingston, Mukilteo, Clinton, Anacortes, Friday Harbor and Orcas Island. These cameras help customers make travel decisions by showing real-time pictures of the terminal's holding and tollbooth areas.

These WSF's improvements have changed how customers obtain information. There was a 400% increase in information e-mails and almost a 1,000% increase in web site visits this biennium.

WSF's Website

WSF Customer Information Requests by Source

Route	1997/99	1999/01
Automated Phone Calls	1,803,800	1,406,700
WSF Web Site Hits	22,036,300	203,108,000
Information Center Phone Calls	339,000	272,500
Information Center E-Mails	10,100	42,500

Table reflects information requests by calendar year (January through December).

03. ROUTES, SCHEDULES & RIDERSHIP

Routes, Schedules & Ridership

Routes

WSF operates 10 routes including international service between the United States and Canada via the Anacortes/San Juan Islands/Sidney (Vancouver Island, B.C.) route. Most routes provide service between two terminals, except for the Fauntleroy/Vashon Island/Southworth and Anacortes/San Juan Islands/Sidney B.C. routes, which serve three and six destinations, respectively. Route lengths and crossing times vary throughout the system, from 1.7 miles and approximately 15 minutes on the Point Defiance/Tahlequah route to 40 miles and almost three hours 15 minutes for the Anacortes/San Juan Islands/Sidney route.

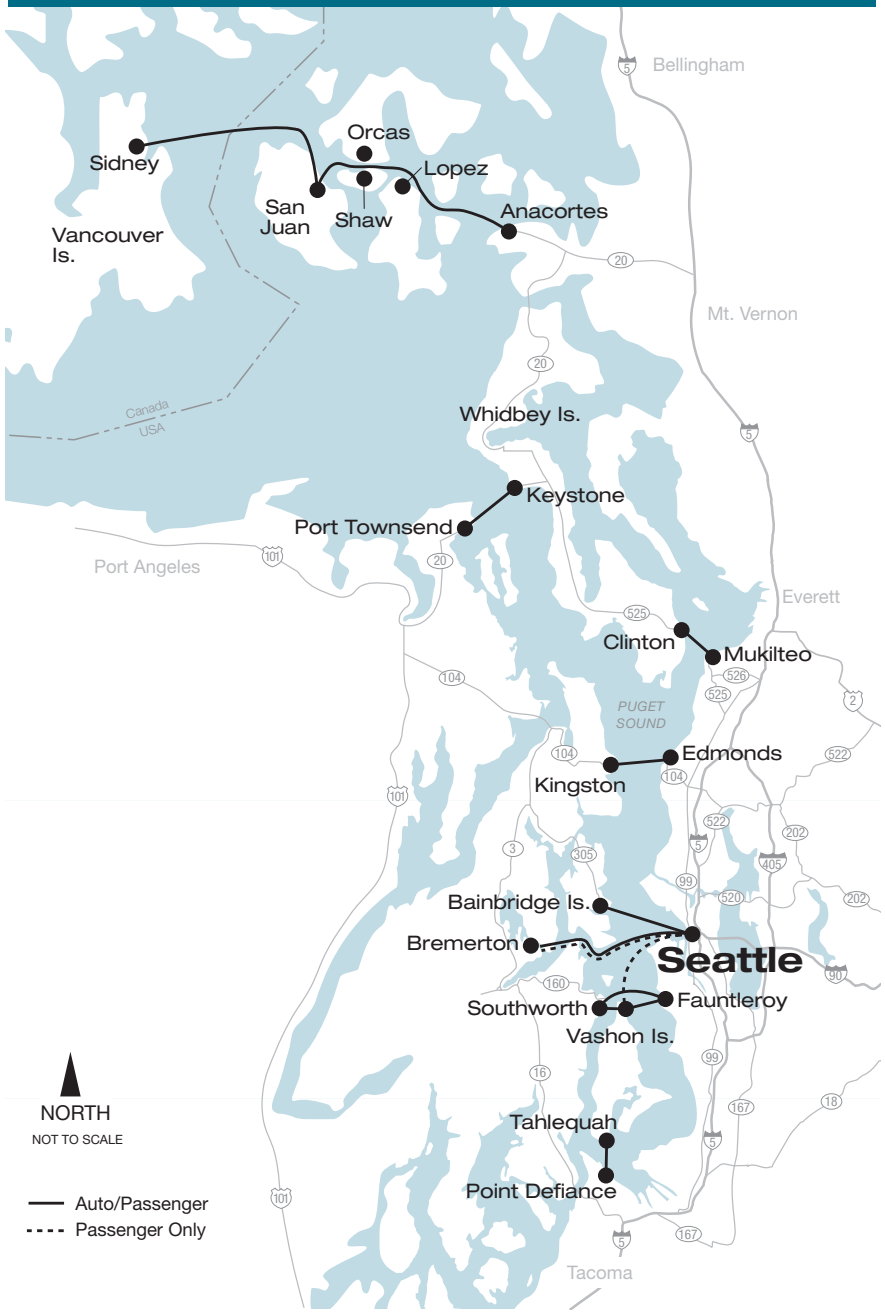
The crossing time on the Seattle/Bremerton route has been an issue this biennium. When the passenger-only ferry Chinook entered service on the Seattle/Bremerton route in May 1998, it provided a 30-minute crossing time with its 34-to-37-knot service speed. However, in March 1999, a group of property owners along Rich Passage (a narrow stretch of the route between Seattle and Bremerton) filed a lawsuit claiming the Chinook was causing damage to the shoreline and property in the area from Middle Point to the Bremerton Ferry Terminal in Kitsap County.

Following a series of legal proceedings, WSF conducted a SEPA (State Environmental Policy Act) review to determine what was causing the shoreline erosion and bulkhead damage observed in the Rich Passage area. After 24 months of research, the scientists concluded that a variety of natural and manmade factors – including the passenger-only ferries – resulted in erosion and bulkhead damage. Other factors include bulkhead placement, tides, winds, currents, and wake from other vessels. Ultimately, the ferries slowed down in the affected area and the property owners were compensated for damages under a court-approved settlement.

Today, the Chinook and her sister ship, the Snohomish, continue to provide passenger-only ferry service on the Seattle/Bremerton route, maintaining a 40-minute crossing time even with a portion of the route slowed to 16 knots.

Vessels are assigned to routes based on the route's vehicle and passenger volume. The largest vessels are assigned to the busiest routes and the smallest ferries are assigned to the less-traveled routes. For example, two of the three Jumbo Mark IIs, able to carry 218 vehicles each, are assigned to the Seattle/Bainbridge Island route, while the Rhododendron, with a vehicle capacity of 65 vehicles, is assigned to the Point Defiance/Tahlequah route. Through the budget process, the Legislature officially determines the class of vessel that is authorized to serve a particular route, as well as the hours that service will be provided. In the 1999/01 biennium, one vessel assignment was eliminated and two vessels were changed due to the service reductions that took effect in June 2000.

WSF Routes



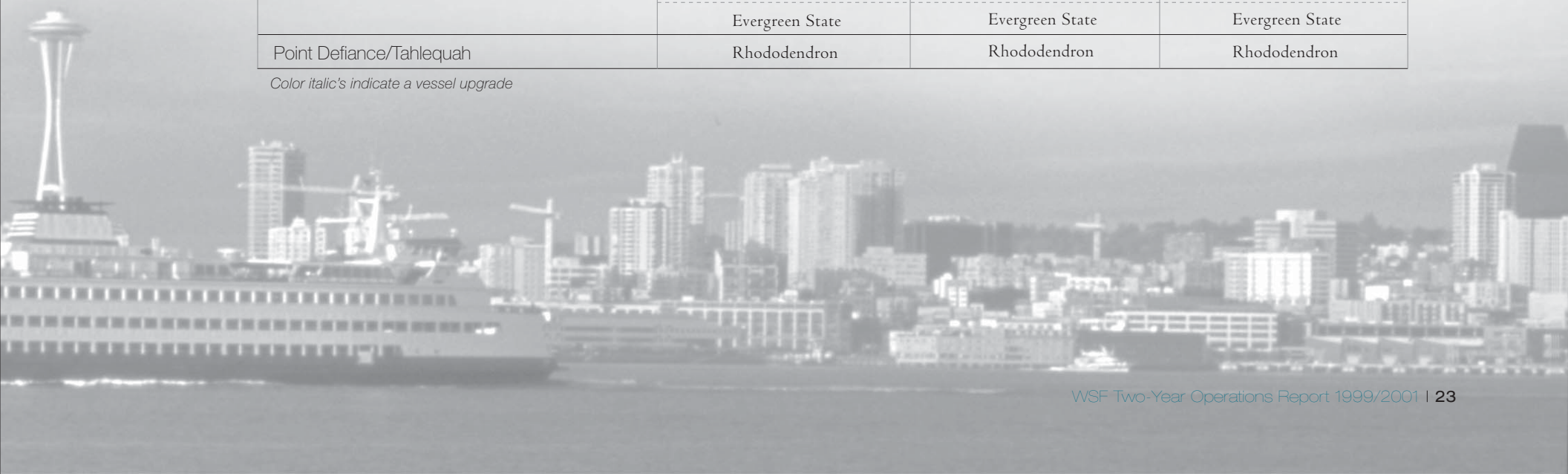
Route Segment Lengths and Crossing Times

Route	Statute Miles	Nautical Miles	Approximate Crossing Time
Anacortes/Sidney B.C. (via Orcas & Friday Harbor using the Upright Channel)	39.9	34.7	3 hr. 15 min.
Anacortes/Sidney B.C. (via Orcas using Wasp Pass)	36.7	31.9	3 hr.
Anacortes/Friday Harbor (via Lopez)	18.2	15.8	1 hr. 35 min.
Seattle/Bremerton	15.5	13.5	1 hr.
Seattle/Bremerton (passenger-only ferry)	15.5	13.5	40 min.
Anacortes/Orcas	14.3	12.4	1 hr. 15 min.
Anacortes/Lopez	10.8	9.4	50 min.
Seattle/Bainbridge Island	8.6	7.5	35 min.
Seattle/Vashon Island	9.8	8.5	30 min.
Edmonds/Kingston	5.2	4.5	30 min.
Port Townsend/Keystone	4.9	4.3	30 min.
Fauntleroy/Southworth (via Vashon Island)	5.1	4.4	45 min.
Fauntleroy/Southworth	4.7	4.1	35 min.
Fauntleroy/Vashon Island	3.2	2.8	15 min.
Vashon Island/Southworth	1.8	1.6	10 min.
Mukilteo/Clinton	2.5	2.3	20 min.
Point Defiance/Tahlequah	1.7	1.5	15 min.

Summer Vehicle Vessel Assignments by Route

Route	1997/99 Biennium	Fiscal Year 2000	Fiscal Year 2001
Anacortes/San Juan Islands/Sidney, B.C.	Super	Super	Super
	Super	Super	Super
	Super	Super	Super
	Evergreen State	Evergreen State	*Issaquah 130*
	Steel Electric	Steel Electric	Steel Electric
Port Townsend/Keystone	Steel Electric	Steel Electric	Steel Electric
	Steel Electric	Steel Electric	Steel Electric
Mukilteo/Clinton	Issaquah 130	Issaquah 130	Issaquah 130
	Issaquah 130	Issaquah 130	Issaquah 130
Edmonds/Kingston	Jumbo Mark II	Jumbo Mark II	Jumbo Mark II
	Jumbo	Jumbo	Jumbo
Seattle/Bainbridge Island	Jumbo Mark II	Jumbo Mark II	Jumbo Mark II
	Jumbo Mark II	Jumbo Mark II	Jumbo Mark II
		Jumbo	
Seattle/Bremerton	Issaquah 130	Issaquah 130	Issaquah 130
	Issaquah	Issaquah	*Jumbo*
Fauntleroy/Vashon Island/Southworth	Issaquah 130	Issaquah 130	Issaquah 130
	Evergreen State	Evergreen State	Evergreen State
	Evergreen State	Evergreen State	Evergreen State
Point Defiance/Tahlequah	Rhododendron	Rhododendron	Rhododendron

Color italic's indicate a vessel upgrade



Schedules

The hours of ferry operation vary considerably among routes, ranging from 22 hours of service each day on the Seattle/Bainbridge Island and Fauntleroy/Vashon Island/Southworth routes to 15 hours of service each day on the Port Townsend/Keystone route during winter months. Most other routes offer about 20 hours of service each day, from approximately 5:00 a.m. to 1:00 a.m.

Headways (the time between consecutive sailings) vary considerably by route and depend upon route length and demand. A 30-minute headway is standard during peak periods on the Mukilteo/Clinton and Fauntleroy/Vashon Island/Southworth routes. Other routes provide 45-minute to 50-minute service, with the exception of the Seattle/Bremerton route (60-minute to 90-minute headways) and the Anacortes/San Juan Islands routes (2-hour to 4-hour headways). Most route schedules provide increased service in the peak direction during the commute peak periods and are scheduled to enable commuters to reach their work destinations or connect with local transit service at convenient times.

Schedules are structured by season. Greater levels of service are provided during peak or high-demand periods (primarily summer) through decreased headways (less time between sailings) and extended hours of service.
The San Juan Islands service provides the best example of how WSF meets increased demand with expanded seasonal levels of service. In the winter, when tourist demand is lowest, service is reduced to four vessels (including the inter-island vessel) that provide 13 round-trips per day between Anacortes and island destinations. With the enormous influx of tourists during the peak summer season, WSF meets the demand with five vessels that provide 18 round-trips per day. This increases the capacity of San Juan Islands service by 50%.

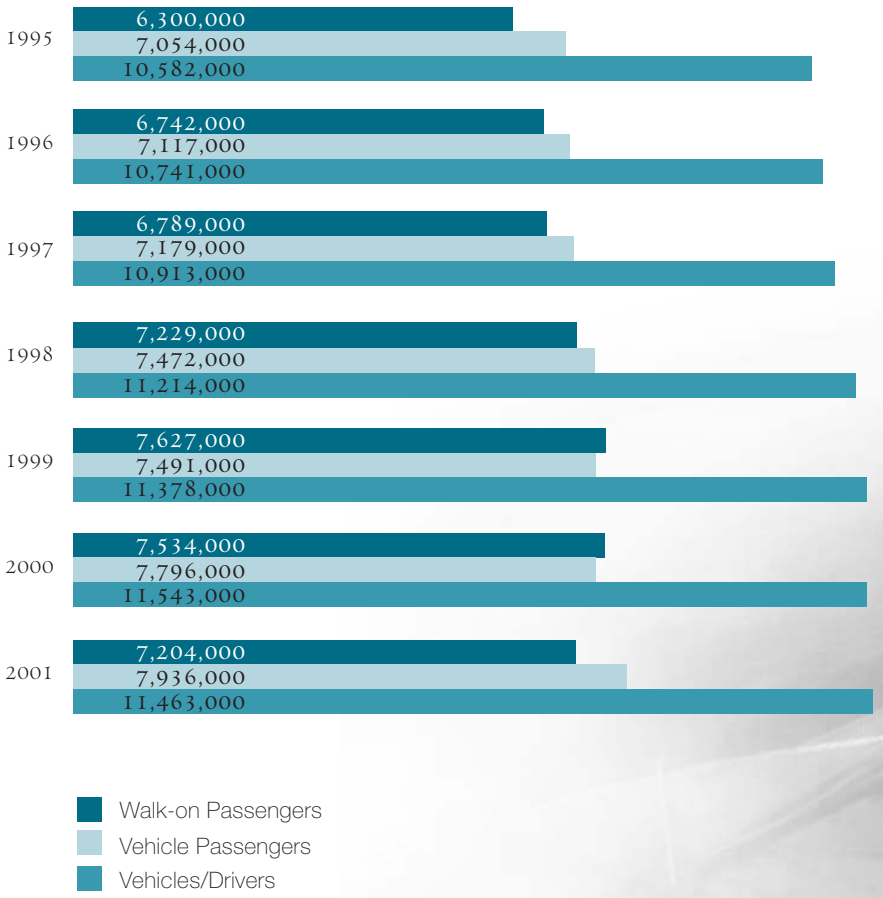
Transportation connections near Colman Dock.

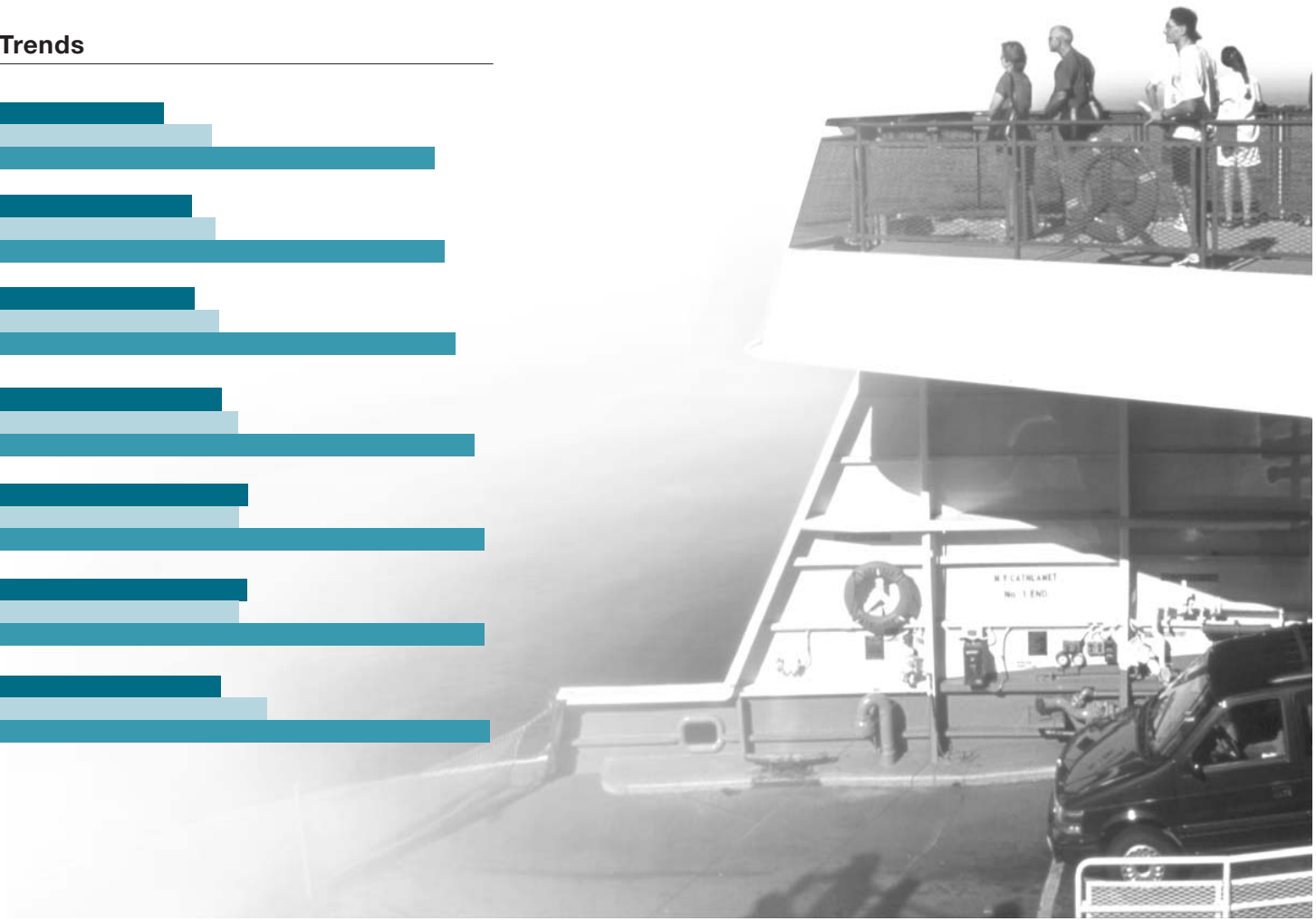
Ridership

WSF's ridership consists of three categories: vehicles and their drivers, passengers in vehicles, and passengers that walk on the vessels. Total systemwide ferry ridership increased slightly during the 1999/01 biennium, with 26.6 million riders in fiscal year 2001, compared to 26.4 million riders in fiscal year 1999. However, each segment of WSF's ridership performed differently over the two-year period. The number of vehicles and drivers carried by WSF rose 1.4% between 1999 and 2000, but decreased 0.7% between 2000 and 2001. In contrast, the number

of vehicle passengers increased by approximately 3% per year, while walk-on passenger ridership fell by about 3% per year in 2000 and 2001. As a result, vehicle passenger ridership again exceeds walk-on passenger ridership, which is a change in the trend demonstrated in the previous biennium. The fluctuations in ridership are likely due to the reductions in service that were implemented during the biennium. The number of walk-on passengers, and to some degree the number of vehicle passengers, indicates the extent to which WSF is being used as a mass transportation system as opposed to an extension of the highway system. For example, of the over 26 million total riders in 2001, 57% (15.1 million) were walk-on or vehicle passengers (not vehicle drivers). Systemwide, walk-on passengers account for about 27% of all ridership. However, in 2001, 40% of ferry ridership on the Seattle/Bainbridge route and 44% of the ridership on the Seattle/Bremerton auto ferry routes were walk-on passengers. This higher proportion of walk-on passengers is an indication of the high employment density in downtown Seattle within walking distance of Colman Dock, as well as the employment at the naval shipyards in Bremerton and the excellent transit connections in Kitsap County.

Systemwide Ridership Trends



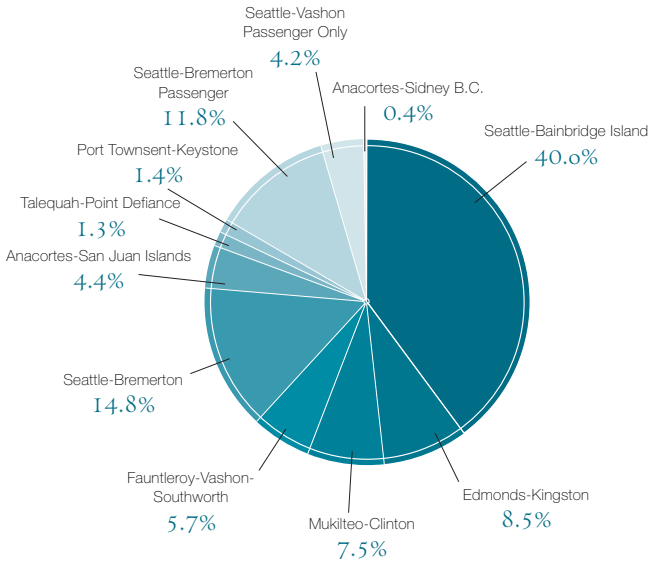


Ridership Statistics by Route

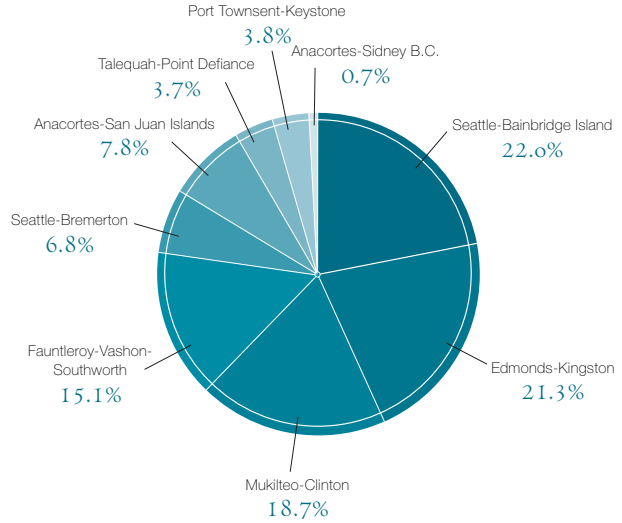
Routes	Fiscal Year 2000			Fiscal Year 2001		
	Vehicle/ Drivers	Vehicle/ Passenger	Walk-On Passengers	Vehicle/ Drivers	Vehicle/ Passenger	Walk-On Passengers
Seattle/Bainbridge Island	2,398,000	1,798,000	3,092,000	2,335,000	2,007,000	2,798,000
Edmonds/Kingston	2,434,000	1,680,000	616,000	2,461,000	1,667,000	630,000
Mukilteo/Clinton	2,272,000	1,406,000	578,000	2,213,000	1,370,000	529,000
Fauntleroy/Vashon Island/Southworth	1,906,000	1,020,000	407,000	1,914,000	994,000	428,000
Seattle/Bremerton	753,000	532,000	1,133,000	783,000	572,000	1,050,000
Anacortes/San Juan Islands	841,000	642,000	336,000	874,000	654,000	318,000
Seattle/Bremerton Passenger Only	NA	NA	815,000	NA	NA	928,000
Keystone/Port Townsend	392,000	366,000	108,000	385,000	346,000	105,000
Tahlequah/Point Defiance	500,000	271,000	100,000	444,000	233,000	95,000
Seattle/Vashon Passenger Only	NA	NA	321,000	NA	NA	295,000
Anacortes/Sidney B.C.	48,000	80,000	27,000	56,000	93,000	27,000
All Routes	11,543,000	7,796,000	7,534,000	11,463,000	7,936,000	7,204,000

NA -Not Applicable

Walk-on Passenger Ridership - 1999/01 Biennium



Vehicle Ridership (Drivers & Passengers) - 1999/01 Biennium



Passengers enjoying the scenery on a sunny day.

Ferry ridership varies greatly by season, day of week, and time of day. In general, routes experience a ridership increase during the summer season and a decrease during the winter months. Seasonal variation can be extreme, as in the case of the Anacortes/San Juan Islands route, or relatively minor, as in the case of the Fauntleroy/Vashon Island/Southworth and Seattle/Bainbridge Island routes. This seasonal change is largely due to the recreational or non-commuter portion of the ridership. Many routes experience daily peaks similar to highways, with periods of high ridership occurring in the peak morning and evening commute hours.

During peak times, and especially during the summer season, many routes experience vessel overloads where vehicular demand exceeds vessel capacity, and vehicles must wait for subsequent sailings. Long waiting lines are common in July and August because of the increase in recreational travelers and tourists. Overload conditions on the Anacortes/San Juan Islands, Edmonds/Kingston, and Mukilteo/Clinton routes can be extreme during summer holidays, as people use the ferries to travel to vacation destinations in the San Juan Islands, Kitsap and Olympic Peninsulas, and Whidbey Island. Overload conditions are also spreading into off-peak time periods (late spring/early fall and midday), when WSF is constrained in its capacity to meet demand due to budget limitations and refurbishment and maintenance schedules.

The majority of WSF ridership is concentrated on three routes—Seattle/Bainbridge Island, Edmonds/Kingston, and Mukilteo/Clinton. These three routes served approximately 62% of the systemwide vehicle ridership (including vehicle drivers and passengers) and 56% of the systemwide walk-on passenger ridership during the biennium. The Seattle/Bainbridge Island route continued to carry the most walk-on passengers this biennium, with 40% of the systemwide walk-on passenger ridership—more than double the walk-on passenger ridership of any other route.

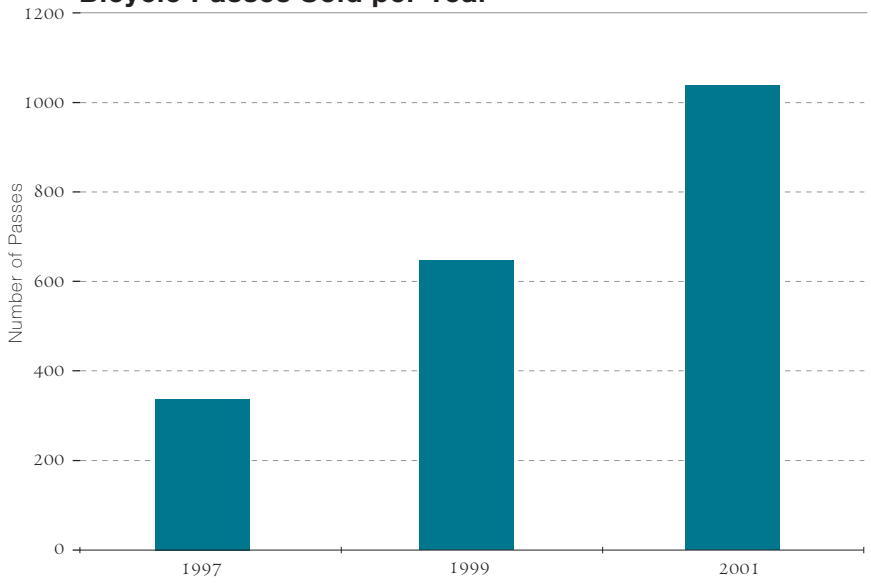
Ridesharing

WSF helps promote carpooling and vanpooling through the Guaranteed Loading Program. Carpools and vanpools in the program are assured loading on one morning and one afternoon sailing per day. The program services are free to carpool users, although the vehicle fare must still be paid. Registered vanpools are exempt from the vehicle fare with payment of a $10.00 annual administration fee. WSF charges riders in vanpools only the normal passenger fare, which provides a considerable savings over the standard auto/driver fare.

WSF's registered vanpools and carpools totaled 535 in June 2001, of which 353 are carpools and 182 are vanpools. The total number of carpools and vanpools has decreased since the last biennium due to a change in the carpool registration process. Previously, many members of the same carpool could have a WSF carpool registration. This process was reworked in the 1999/01 biennium so there is only one registration per carpool. The new carpool and vanpool registrations will serve as a benchmark for future growth in this important program.

Metro Vanpool.

Bicycle Passes Sold per Year



Bicycle Passes

The Bicycle Pass Program was developed in the 1993/95 biennium to promote bicycles as an alternative mode of transportation on Washington State Ferries. A bicycle pass allows the rider to avoid bicycle surcharges when riding the ferry. A regular commuter who travels five days a week aboard the ferries with their bike can save $175 (annually) over the regular fare after paying the $20 initial registration fee. The Bicycle Pass Program is not valid on the San Juan Island routes. In 2001, there were 1,037 bicycle passes issued—a 60% increase over the number sold in 1999.

WSF Travel Survey

During the 1999/01 biennium, WSF updated and expanded the origin and destination travel survey that it performed in 1993. The survey was undertaken in response to a recommendation from the 1998 Department of Transportation Ferry System Performance Audit. The *WSF 1999 Travel Study*: *Analysis and Results Report* was completed in June 2000. The travel survey was administered on weekdays and weekend days in May and early June 1999. The survey requested information about riders' trip origin and destination, trip purpose, travel modes and habits, and demographics. Over 18,000 questionnaires were collected from a sample of passengers on each of WSF's routes, reflecting a response rate of 30%. Findings from the analysis of survey results will be used update WSF's systemwide travel-forecasting model.

Findings from WSF's Travel Survey

- Two-thirds of p.m. peak period trips and one half of non-peak p.m. trips are undertaken for work, school, or other business purposes.
- 55% of all p.m. peak period trips were between work and home.
- 75% of all p.m. peak period trips were to or from home.
- 50% of all p.m. peak period riders made six or more one-way ferry trips in the previous week.
- Average vehicle occupancy during the p.m. peak period was 1.48 persons, a slight decline from 1993.
- Since 1993, there has been a significant increase in the use of transit for access to or egress from ferry terminals by walk-on passengers during the p.m. peak period.

04. ASSETS


1

Assets

Since 1951, WSF's foundation has been its vessels and terminals. WSF uses several vessels and most of the terminals acquired in the original purchase from the Puget Sound Navigation Company. WSF protects its investment by emphasizing preservation as a capital program priority. As vessels approach 30 years of service and timber trestles approach 40 years, preservation requirements rise dramatically. Four vessels and approximately one-third of all trestle sections are currently nearing the end of their projected useful life. As a result, preservation costs are claiming an increasing share of WSF's resources. In addition to preservation, WSF adheres to a comprehensive maintenance program for vessels and terminals that protects its investment and enables WSF to handle and prevent emergencies.

The Fleet

WSF's fleet began with 19 vehicle ferries—16 purchased from the Black Ball line, one from King County, and two from private owners. Four of the vessels included in the original 1951 purchase, the Steel Electric Class, are still operating today. WSF's fleet increased this biennium with the addition of the Snohomish passenger-only fast ferry—the *Chinook's* sister ship. The current fleet includes 29 vessels—24 vehicle ferries and five passenger-only vessels—ranging in size from the 460-foot long Jumbo Mark II ferry able to accommodate 218 vehicles and 2,500 passengers to the 86-foot long Tyee passenger-only vessel with a 250-passenger capacity.

In general, auto ferries have an estimated useful life of about 60 years and passenger-only vessels have a life of 25 years. WSF has four auto ferries that are approaching 75 years of service, and over half of its auto vessels were constructed prior to 1975. Major preservation efforts are typically required when auto vessels approach the end of their 30-year service life. Four active vessels are approaching this milestone, with six more at the 20-year mark. The average age of WSF's passenger-only vessels is about nine years.

WSF makes capital investments in its 29-vessel fleet to accomplish two objectives—1) to protect existing vessels through emergency repairs and preservation activities, and 2) to improve the capacity of the fleet to meet growth in customer demand for ferry service. In the 1999/01 biennium, WSF invested $107.7 million in the fleet, including:

WSF welcomes the Snohomish to its fleet.

- $3.5 million for emergency repairs to fix damaged vessels and return them to service as quickly as possible,
- $78.4 million for preservation to replace vessel systems and structures when they reach the end of their life cycles,
- $25.8 million to add new vessels to the fleet or for improvements to increase the capacity of existing vessels.

Emergency repairs are a relatively small line item in WSF's Capital Program, but are WSF's highest priority in its capital budget. Serious scheduling problems occur if vessels experience unforeseen damage.Consequently, WSF expedites emergency repairs in order to quickly return vessels to service in safe and sound condition.

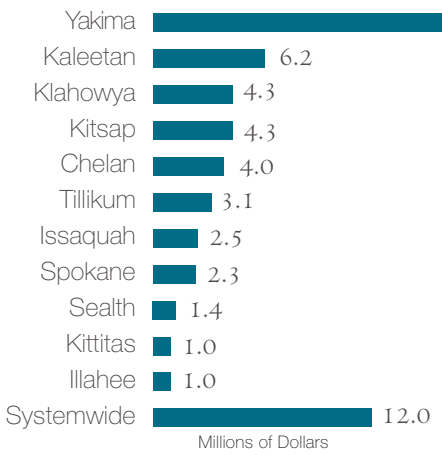
WSF made emergency repairs to 14 vessels during the 1999/01 biennium. Three-quarters of the expenditures went to three vessels:

- *Elwha* for its hard landing at the Orcas Island ferry terminal and repair of its propulsion drive motors, generators and alternators,
- *Klickitat* for repairs to its propulsion drive motors,
- *Chinook* for repair to its propulsion engines and water jets.

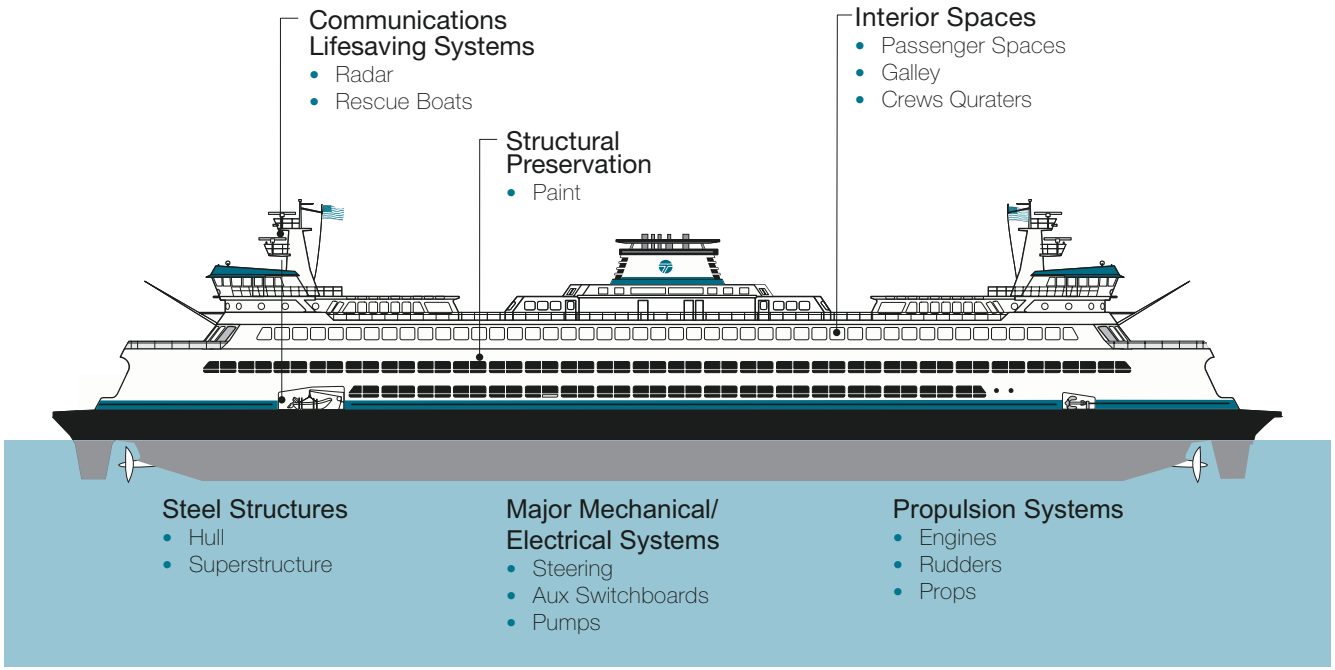
The vessel preservation effort in the 1999/01 biennium replaced or refurbished 72 vessel systems and structures. These included 42 vital Category 1 systems and structures needed for the safety of people, vessels, terminals, and the environment, and 30 non-vital Category 2 systems and structures. This preservation effort emphasized propulsion, communication, navigation and life saving systems. Preserving the *Yakima* accounted for half of the replaced and refurbished systems, and the multi-biennial initiative to preserve the six Issaquah class vessels accounted for another 22 systems. Even with WSF's focus on preservation, the vessel preservation efforts were unable to stop the deterioration in the life-cycle ratings of the fleet. The fleet began the biennium with a Category 1 life-cycle rating of 84% and a Category 2 life-cycle rating of 63%, and ended with a Category 1 rating of 77% and a Category 2 rating of 55%. In effect, the number of systems and structures reaching the end of their life cycles during this period exceeded the number of vessel components that were preserved.

WSF has begun to emphasize preserving Category 1 vessel systems and structures, per the recommendation of the Joint Task Force on Ferries. WSF uses a series of small contracts to target Category 1 systems over several biennia to ensure the most critical systems are preserved first. This strategy was used for preserving the six Issaquah class vessels.

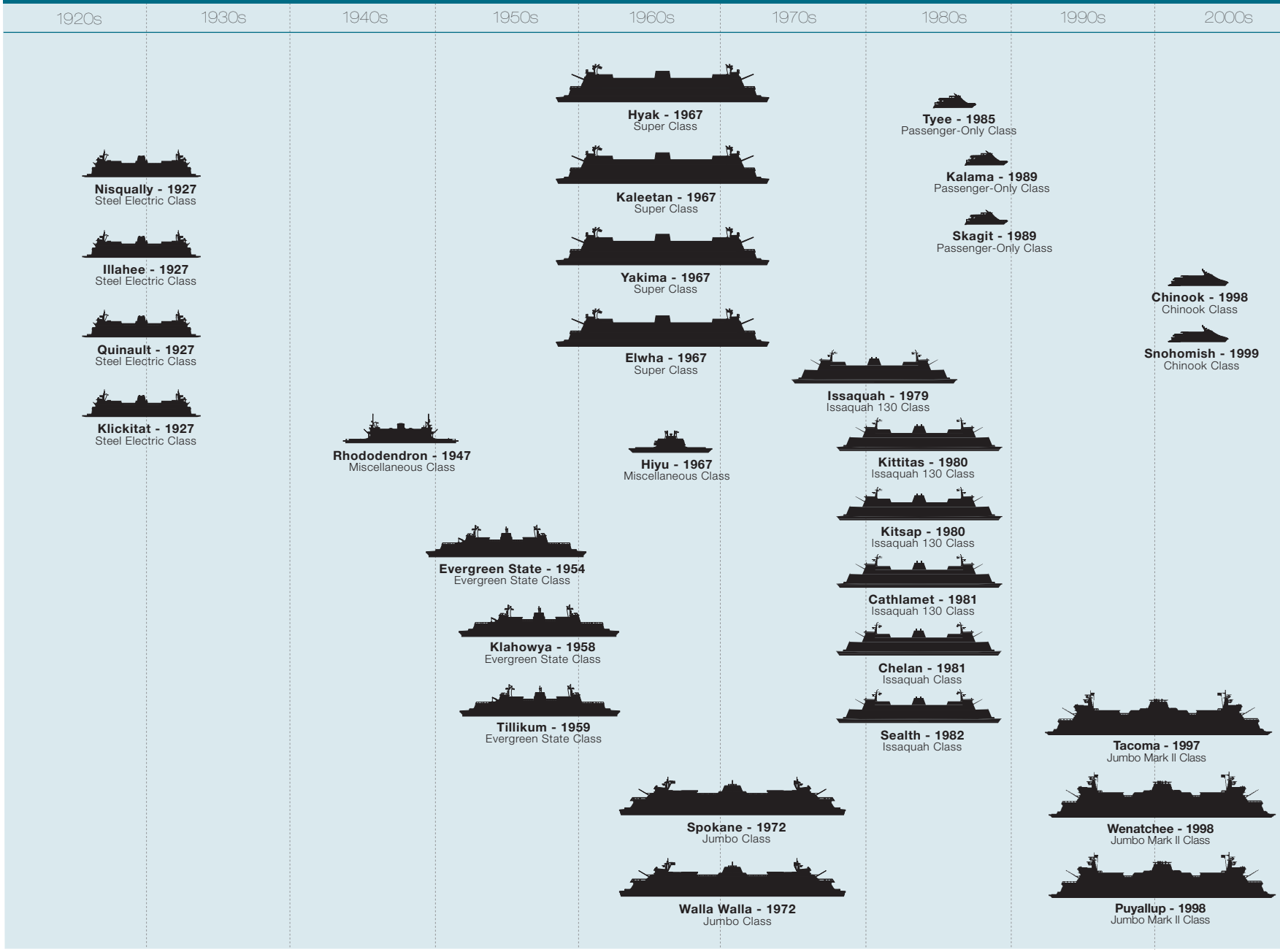
Vessel Preservation Spending $78.4 Million - 1999/01 Biennium



Vessel Systems and Structures



Historic Vessel Construction



Vessel Specifications

Class	Name	Length (feet)	Beam (feet)	Speed (knots)	Auto Capacity	Passenger Capacity	Crew
Jumbo Mark II	Tacoma	460	90	18	218	2,500	14
	Wenatchee						
	Puyallup						
Jumbo	Spokane	440	87	18	206	2,000	14
	Walla Walla						
Super	Hyak	382	73	14-18	160	2,500	13
	Kaleetan						
	Yakima						
	Elwha						
Issaquah 130	Issaquah	328	78	16	130	1,200	10
	Kittitas						
	Kitsap						
	Cathlamet						
	Chelan						
Issaquah	Sealth	328	78	16	100	1,200	10
Evergreen State	Evergreen State	310	73	13	100	1,000	11
	Klahowya						
	Tillikum						
Steel Electric	Illahee	256	73	12	75	616	8
	Quinault						
	Nisqually						
	Klickitat						
Miscellaneous	Rhododendron	225	63	12	65	546	8
	Hiyu	150	63	10	40	200	4
Passenger-Only	Tyee	86	31	25	0	250	4
	Kalama	112	25	25	0	250	4
	Skagit						
Chinook	Chinook	143	39	38	0	250	5
	Snohomish						

WSF spent $25.8 million on vessel improvements in this biennium. Most ($18.7 million) involved closing out new vessel construction contracts that were substantially completed in the prior biennium, including contracts for the three new Jumbo Mark II class ferries (*Puyallup, Tacoma and Wenatchee*) and the two new passenger-only fast ferries (*Chinook and Snohomish*). WSF also added a second deck to the Chelan, which increased its auto-carrying capacity from 100 to 130 cars.

Acting on recommendations contained in the 2001 Performance Audit, new design-build legislation was passed in May 2001, which allows use of a modified Request for Proposals (RFP) process to design and build new vehicle ferries over $10 million. This three-phase process allows WSF to evaluate and select a limited number of shipyards to participate in development of technical proposals, consult with shipyards while they prepare their technical proposal, and select the responsive and responsible shipyard with the lowest price. WSF hopes to use this new process to design and build a new class of vehicle ferries to replace WSF's oldest vessels—the Steel Electric class and the *Rhododendron*. The new vessels could be utilized on the Keystone/Port Townsend route. The vessels are planned to accommodate approximately 110 vehicles and about 900 passengers. WSF also hopes to expand its passenger-only fleet to include four new vessels in the future. These additional vessels could allow passenger-only

The Hiyu and Klickitat at the Eagle Harbor maintenance facility.

service from both Kingston and Southworth to downtown Seattle. Construction of these vessels is dependent upon the approval of the statewide transportation referendum planned to go to the voters in November 2002.

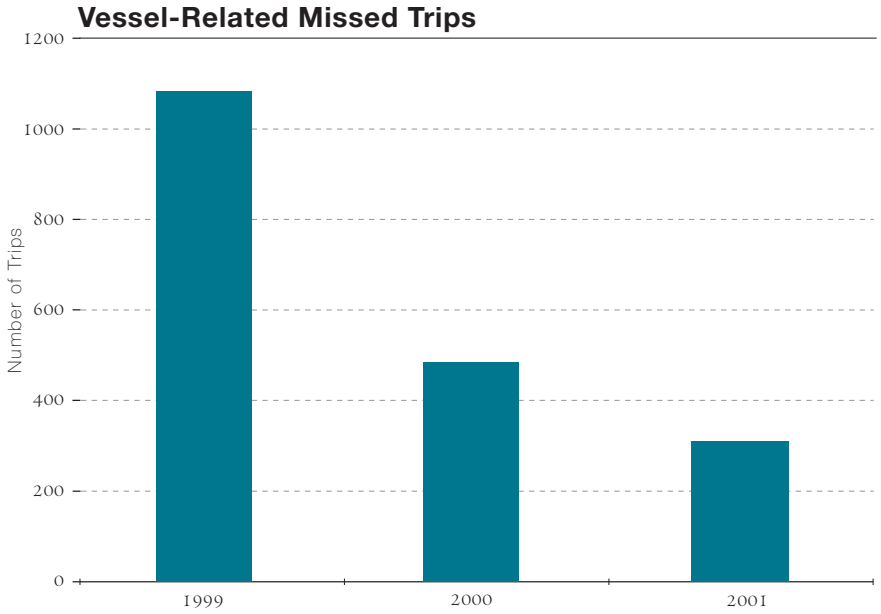
In addition to vessel preservation and improvements, WSF has an aggressive vessel maintenance program that encompasses all of WSF's vessels. Vessel maintenance for 1999/01 biennium totaled $32.9 million—$17.1 million in 2000 and $15.8 million in 2001. WSF uses a reliability-focused vessel maintenance strategy with inputs from predictive maintenance programs (oil and vibration analysis), planned maintenance (based on past experience), and operator observations (such as temperature rises). To supplement this maintenance strategy, WSF assigns a staff chief engineer to each vessel. The staff chief engineer "owns" their ship and sets the preventative maintenance schedule, writes maintenance requests, is responsible for the maintenance budget, and represents the vessel to WSF's management. This level of staff responsibility is unique among vessel operators, and enhances the overall reliability of WSF's fleet.

Vessel maintenance is grouped into two broad categories: basic and intermediate. Basic vessel maintenance is defined as tasks that can be completed by the engine crew in about 8 hours or less. The vessel's engine crew performs most basic vessel maintenance when the vessel is tied up in the late evenings. Basic maintenance ranges from oil changes to rebuilding the head on an engine power pack. Even a simple oil change can be challenging when considering a Jumbo Mark II vessel has four engines that each need 400 gallons of oil. Another basic maintenance task includes refueling the vessels. Smaller passenger-only vessels are fueled every other night with approximately 600 gallons of diesel fuel per vessel, while the Jumbo Mark II vessels are fueled with about 60,000 gallons twice per month.

Intermediate vessel maintenance is defined as tasks that require more than 8 hours or assistance from the machinists at Eagle Harbor maintenance facility or an outside vendor to complete. Intermediate maintenance ranges from a unit exchange (removing and replacing an engine/generator set or a steering system) to an engine overhaul. Engine overhauls are the specialty of the highly skilled machinists at the Eagle Harbor maintenance facility. The 15 machinists are available 24 hours per day, 7 days per week to completely overhaul the 156 individual diesel engines in WSF's fleet. Some of the engines are very large. For example, the four engines on a Jumbo Mark II are similar to locomotive engines with each weighing approximately 200,000 pounds. Engine crews and Eagle Harbor machinists must get creative at times to support WSF's 99.6% service reliability rate. With permission from the U.S. Coast Guard, WSF crews have performed major maintenance, like changing an engine's crankshaft, while the vessel was underway and operating on its other engines.

Highly skilled and creative crews and

The Skagit approaches Vashon Island.



machinists have reduced the number of missed trips due to vessel-related problems over the past several years. In 2001, less than 0.2% of WSF's total service trips were missed due to vessel-related problems (311 trips out of 178,500 total service trips). The most common cause of vessel-related missed trips has been due to vessel propulsion systems. To improve its in-house repair capabilities, WSF sought and hired an propulsions engineer experienced with WSF's propulsion systems. Having this expert on staff has expanded the knowledge base of WSF's vessel maintenance staff and has enabled propulsion repairs to be completed more quickly.

WSF's vessel maintenance will be improved in the future with an upgrade to its Maintenance Productivity Enhancement Tool (MPET) system. The system is being extended to every vessel via a wireless computer system to transfer data ship-to-shore. This upgrade will provide WSF employees real-time location of parts and the ability to review planned maintenance schedules, the maintenance history of each piece of machinery, preventative maintenance processes, and total costs of maintenance including labor, travel time, and materials. This upgraded system will make the maintenance department more efficient and will allow WSF to reduce its paperwork and inventory.

Terminals

Fifty years ago, WSF purchased or leased the property for 17 terminals, of which 13 are still in use (Anacortes, Bremerton, Edmonds, Fauntleroy, Friday Harbor, Kingston, Lopez Island, Mukilteo, Orcas Island, Point Defiance, Seattle's Colman Dock, Shaw Island, and Winslow). Since then, WSF has purchased or leased the property for seven additional terminals to complete its system—Clinton, Keystone, Port Townsend, Sidney, B.C., Southworth, Tahlequah, and Vashon Island. WSF's 20 terminals are located in eight counties within Washington State and in British Columbia.

Terminal facilities range from large terminals with high activity levels to small but functional terminals on routes with lower ridership. Seattle's Colman Dock on Pier 52 in downtown Seattle is WSF's busiest terminal, serving approximately 10.8 million riders and 3.1 million vehicles in 2001. Its main features include three docking slips for auto-passenger ferries serving the Bainbridge Island and Bremerton routes, an off-street holding area for vehicles, enclosed waiting rooms, overhead loading facilities for passengers, a docking area for Bremerton and Vashon Island passenger-only vessels, some WSF offices, and several retail facilities. In contrast, the terminal facilities at Shaw Island, Tahlequah, and Point Defiance have only a single loading ramp, which must be shared by both vehicles and pedestrians, and no formal off-street holding lot for ferry vehicles. Other WSF terminal facilities range between these two extremes.

Edmonds Terminal.

Terminal Facilities

Location	Ownership	Vehicle Amenities				Pedestrian Amenities		
		Toll Booths	Vehicle Holding Capacity	Transfer Spans		Waiting Area	Overhead Loading	Available Public Transit
				Primary	Tie Up			
Anacortes	Other	4	560	2	2	X	X	X
Bainbridge Island	WSF	4	208	2	1	X	X	X
Bremerton	WSF	2	100	2	0	X	X	X
Clinton	WSF	4	100	2	0	X		X
Edmonds	WSF	3	175	1	0	X	X	X
Fauntleroy	WSF	2	100	1	0	X		X
Friday Harbor	WSF	1	255	1	1	X		
Keystone	Other	2	100	1	0	X		X
Kingston	Other	3	290	2	1	X	X	X
Lopez Island	WSF	1	75	1	0	X		
Mukilteo	Other	3	110	1	0	X		X
Orcas Island	WSF	1	150	1	0	X		
Point Defiance	Other	1	50	1	0	X		X
Port Townsend	WSF	2	110	1	1	X		X
Seattle	WSF	4	650	3	0	X	X	X
Shaw Island	WSF	1	15	1	0			
Sidney, B.C.	Other	1	240	1	0	X		X
Southworth	WSF	2	150	1	0	X		X
Tahlequah	WSF	0	5	1	0	X		X
Vashon Island	WSF	0	100	2	1	X		X

WSF's domestic terminals and maintenance facility consist of 48 trestle sections with construction dates ranging from 1938 to 2000. The composite age of WSF's terminals averages 25 years, with one-third of trestle sections at or past their normal life expectancy. As terminal facilities age, terminal preservation and improvement projects become critical to protecting the public's investment in these facilities. During the 1999/01 biennium, WSF spent $48.0 million for terminal construction projects—78% ($37.6 million) on preservation projects and the remaining 22% ($10.4 million) on improvement projects. Preservation and improvements were made at nearly every terminal in the ferry system.

WSF makes capital investments in its 19 domestic ferry terminals and the Eagle Harbor Maintenance Facility. These investments protect existing facilities and improve their capacity to receive vessels and load and unload passengers and vehicles. In the 1999/01 biennium, WSF invested $51.5 million in these facilities—$3.5 million for emergency repairs, $37.6 million for preservation, and $10.4 million for capacity improvements.

Damage to a ferry terminal can interfere with vessel landing, loading and unloading, disrupting the delivery of ferry services. Consequently, WSF expedites emergency repairs in order to keep the system sailing smoothly. WSF made emergency repairs to nine terminals in the 1999/01 biennium. The majority (70%) of the expenditures were spent on three terminals—Orcas Island, Mukilteo, and Kingston. The most significant emergency involved the Elwha's hard landing at the Orcas Island ferry terminal dock. This accident alone claimed over two-fifths of the terminal emergency repair funds expended during the biennium. The emergency work at Mukilteo repaired the ferry terminal's bridge seat, and the work at Kingston involved repairs to the vehicle transfer span and sewer.

WSF's terminal preservation effort replaced or refurbished 85 terminal systems and structures in the 1999/01 biennium. This effort included 55 Category 1 (vital) and 30 Category 2 (all other) systems and structures, and emphasized building structures, systems and utilities; dolphins; and passenger overhead loading structures. The Bremerton and Clinton ferry terminals accounted for the largest number of systems and structures preserved. Work at Bremerton preserved 13 systems and structures including passenger-overhead loading structures, passenger-only ferry facilities, dolphins, and a wingwall. Work at Clinton preserved 12 systems and structures including dolphins, the south trestle bulkhead, tollbooths, the agent's office, and the covered pedestrian walkway.

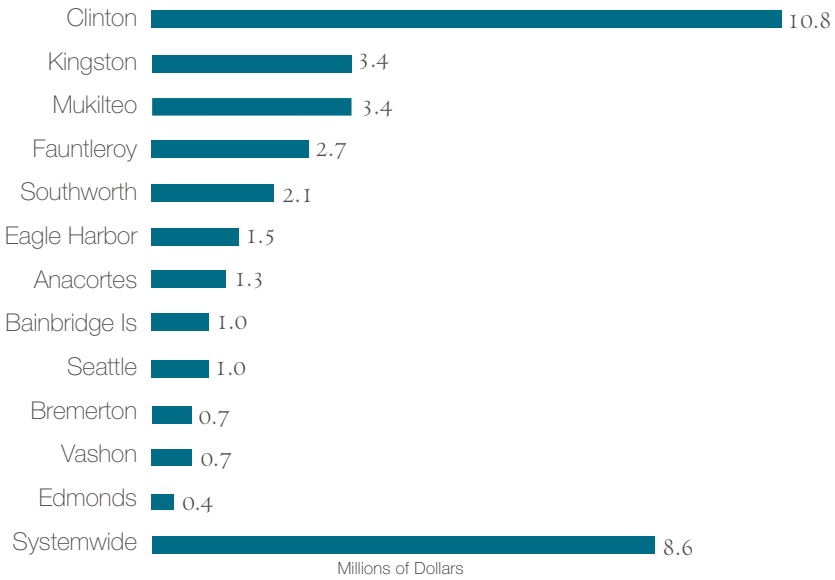
Improvements due to Terminal Preservation Investments

- Reduces the risk of damage to the environment caused by failure of terminal systems and structures.
- Eliminates marine contamination by replacing creosote-treated timber terminal structures with concrete and steel structures.
- Employs environmental mitigation, such as replanting eelgrass.
- Controls and removes hazardous materials at terminal and maintenance sites.

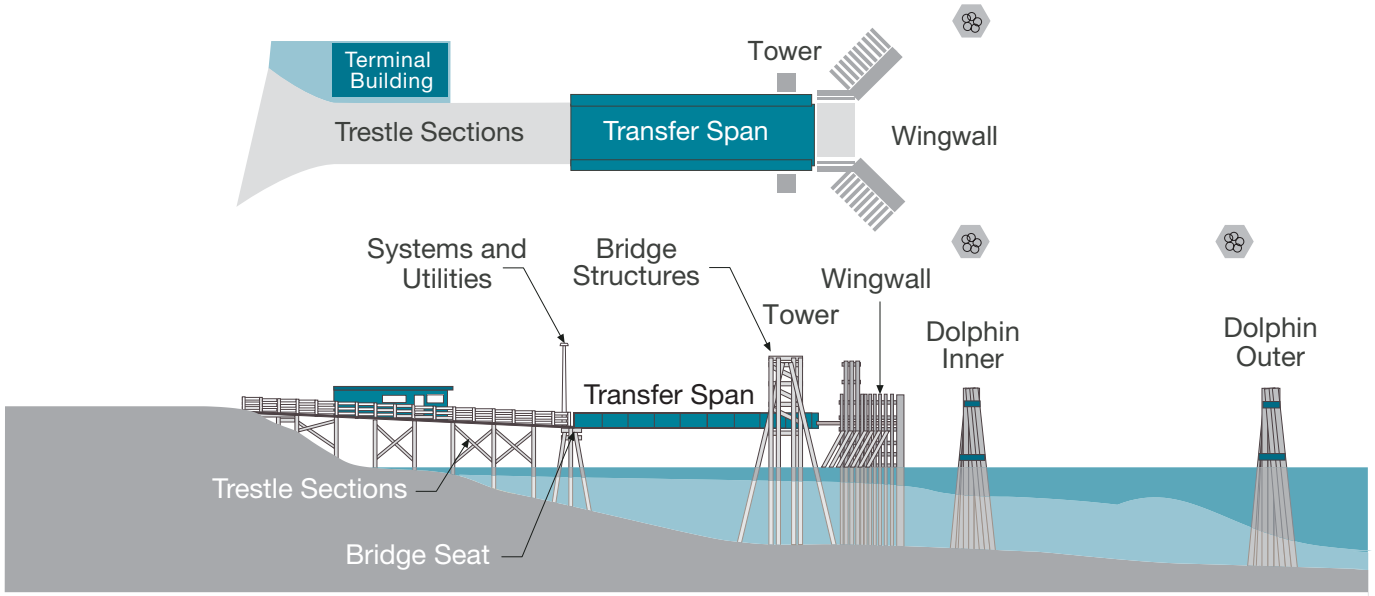
Clinton Terminal after Phase 1 expansion.

Bremerton Terminal.

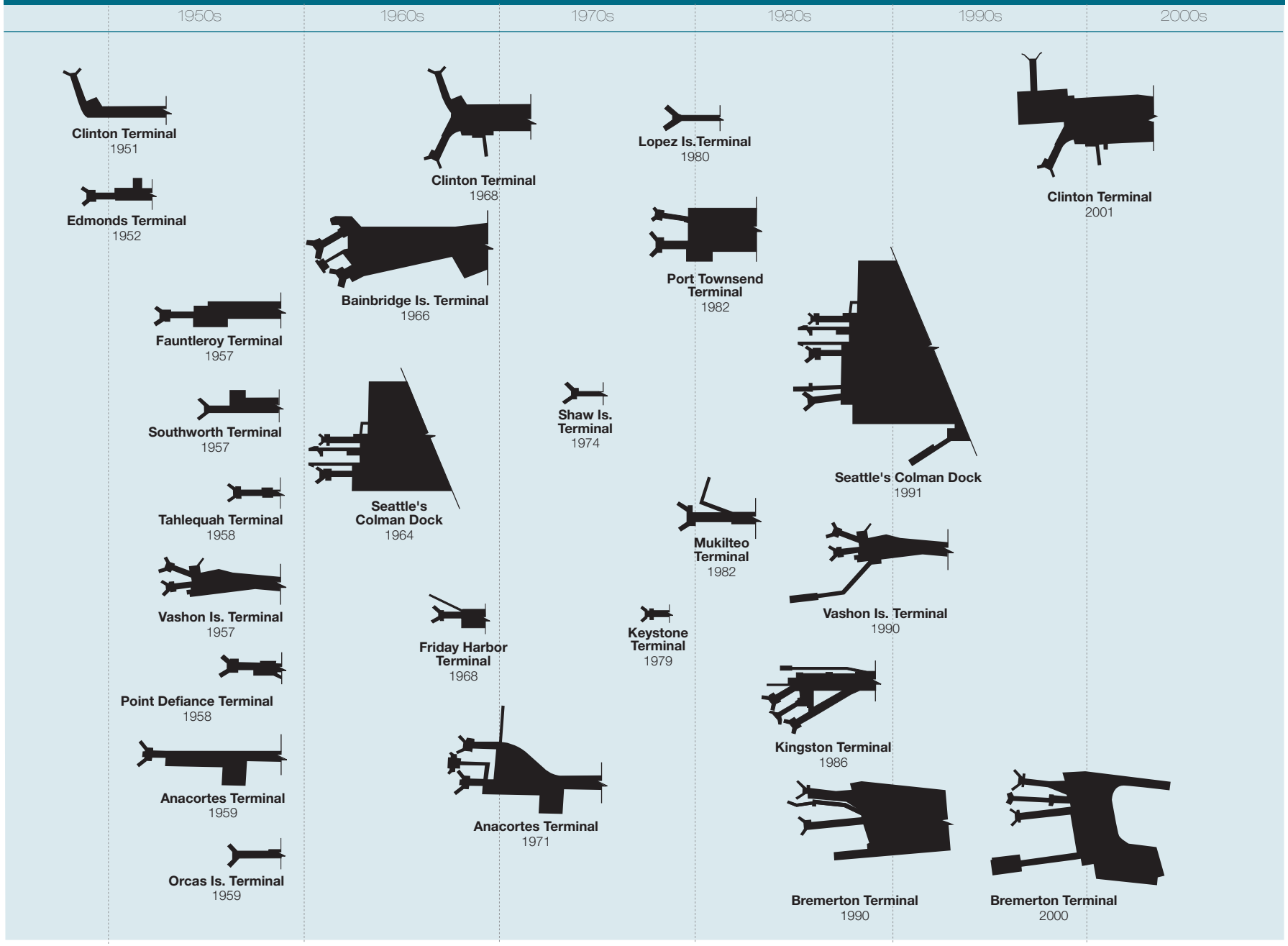
Terminal Preservation Spending $37.6 Million - 1999/01 Biennium



Terminal Systems and Structures



Historic Terminal Improvements Since 1951



WSF spent $10.4 million on terminal improvements this biennium. Approximately one-third ($3.5 million) was spent to widen the trestle at the Clinton terminal, which minimized the disruption to terminal operations and increased the terminal's capacity to land, load and unload vessels. WSF spent $2.9 million at the Seattle Ferry Terminal for the Slip 1 passenger overhead loading and to prepare the master development plan and environmental impact statement for the future development of the terminal. About $3.4 million was spent designing facilities at Kingston, Seattle and Southworth for expanded passenger-only ferry service. However, this work was halted with the passage of I-695. Finally, WSF provided $0.6 million in funding to support two partnerships—one involving the Bremerton Transportation Center project, and the other involving Sinclair Landing passenger-only project.

WSF has a maintenance program that encompasses all of WSF's terminals. Terminal maintenance for 1999/01 biennium totaled $16.2 million—$8.0 million in 2000 and $8.2 million in 2001. Terminal maintenance consists of four main elements: preventative maintenance (PM), inspections, correctives, and enhancements. Since 1997, WSF has used a Maintenance Productivity Enhancement Tool (MPET) program to automatically assign work orders for preventative maintenance on an established cycle and to track corrective work orders. Preventative maintenance can begin as an inspection and then become a scheduled replacement or a corrective. Approximately 1,250 preventative maintenance work orders were completed in the 1999/01 biennium by the shops at Eagle Harbor (carpenter, electric, machine, pipe, shore gang, weld) as well as outside vendors (HVAC, sprinkler systems, pest control, landscaping).

Seattle's Colman Dock.

Construction at Clinton Terminal.

Other types of inspections involve structural and dive inspections. Structural inspections occur at each terminal annually and are performed by the WSDOT Bridge Preservation office. Their scope of work was increased over the past two years to include the Eagle Harbor facility as well as the tie-up and offshore structures at all the terminals. In 1999/01, dive inspections were conducted at 13 of the 20 terminals to inspect underwater structures to determine such things as the marine borer activity in the wood pilings, and the condition of coatings and anchor chains.

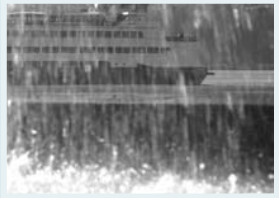
Terminal maintenance correctives are performed by Eagle Harbor Maintenance Facility staff, WSDOT maintenance staff, or outside vendors or contractors. Approximately 2,980 corrective or enhancement work orders were completed in the 1999/01 biennium. Typical correctives performed by Eagle Harbor staff include cable changes due to premature wear, hydraulic cylinder

Terminal-Related Missed Trips

replacement, painting, plumbing repair, and electrical system troubleshooting. Examples of correctives performed by outside vendors include repairs to HVAC systems, automatic doors, elevators, roofs, pavement, security alarms, and public announcement systems. Outside contractor correctives include repairs to dolphins, wingwalls, and under dock pilings; swapping floating dolphins; and replacing anchor chains. Terminal enhancements are made to meet changing service requirements and can include improvements to terminal signage, accessibility, and workspace for terminal employees.

Effective terminal maintenance is a factor in the low number of missed trips each year due to terminal-related problems.

There were 166 and 23 terminal-related missed trips in 2000 and 2001, respectively. Of the 166 missed trips in 2000, 121 were missed due to construction of the Bremerton passenger-only terminal that removed and relocated the service, and 32 were missed due to construction at the Clinton ferry terminal. The remaining missed trips in 2000 and in 2001 involved such things as power outages, planned maintenance, and slip obstructions.



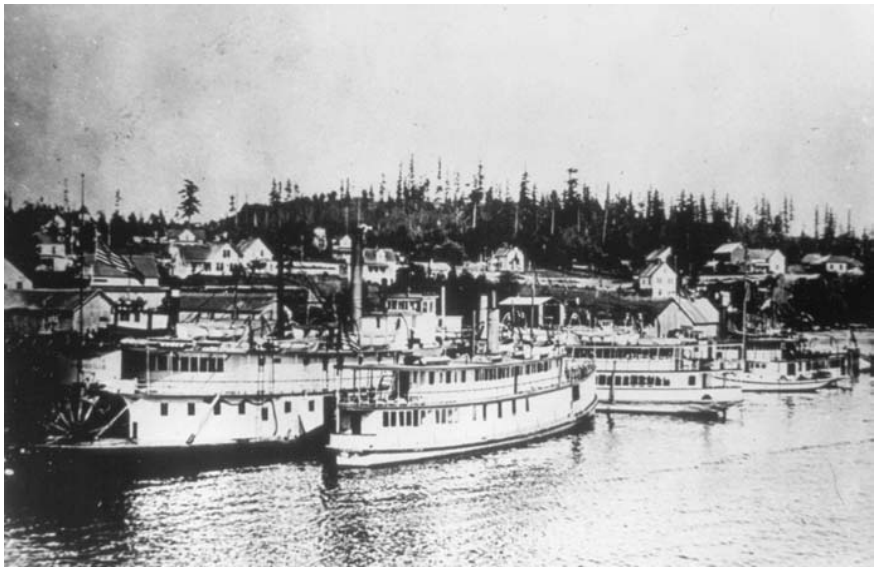
05. MANAGEMENT

Management

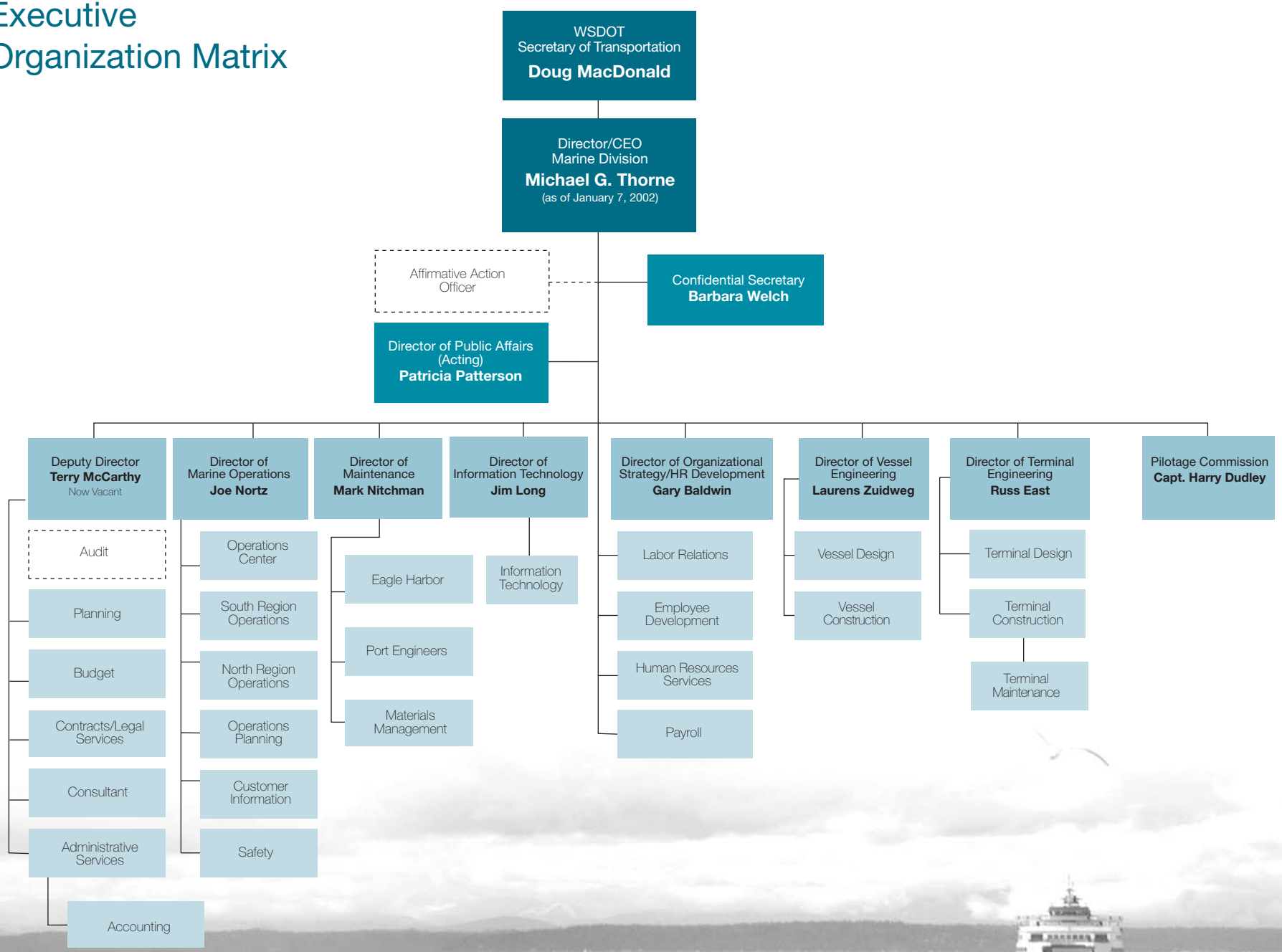
History

Ferry service on Puget Sound began with the legendary Mosquito Fleet—numerous privately-owned, passenger-only ferries. In the 1930s, the Puget Sound Navigation Company came to the fore as the leader in ferry transit. That changed on June 1, 1951, when the State took over ferry transit on the Sound with vessels and terminal facilities purchased from the Puget Sound Navigation Company. In the beginning, the responsibility for managing the ferry system was shared by the Toll Bridge Authority and the State Highway Commission. The Toll Bridge Authority set fares and controlled the system's finances, including long-term indebtedness, while the State Highway Commission controlled the operation of the ferry system. In 1977, the two agencies were combined under the existing Washington State Department of Transportation (WSDOT). WSF is the marine division of WSDOT, and falls under the direction of the Transportation Commission. This seven-person commission develops long-range plans for each mode of transportation, sets six-year investments programs, approves capital project lists, and adopts biennial budgets.

Both WSDOT and WSF made significant leadership and organizational changes during the 1999/01 biennium. A new Transportation Secretary was welcomed at WSDOT and WSF bid farewell to its Chief Executive Officer. An interim management team for WSF was established while a new CEO was hired. WSDOT was also reorganized to include WSF's Director/CEO as a Deputy Director of WSDOT that reports directly to the Secretary of Transportation. Previously WSF's CEO reported to the Assistant Secretary of WSDOT.



Executive Organization Matrix



Strategic Plan

WSF's strategic plan, *Momentum,* is its management framework and symbolizes its attitude and determination to be the best ferry system in the world and to earn the confidence of its stakeholders. The plan, initiated in 1996, is composed of three parts: a mission, strategic initiatives, and goals. WSF's mission includes a business definition, vision, and guiding principles.

- WSF's business definition is, "… to provide marine mass transportation linkages for people and goods throughout the greater Puget Sound Region and Vancouver Island."
- WSF's vision is "to be the most efficient, affordable, customer-focused ferry operator in the world."
- WSF's guiding principles are safety, customer service, public trust, excellence, respect for others, and partnerships.

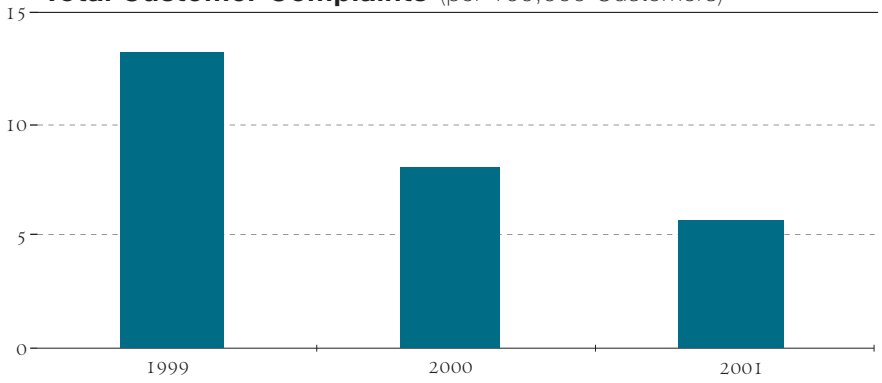
In the 1999/01 biennium, WSF has continued to implement the strategic plan by building a customer-service ethic, developing effective managers and employees, strengthening its organization, improving decision-making and measurement, developing a technology strategy, and refining its business processes.

Momentum also forms the framework for WSF's performance measurement and management. WSF measures progress towards its strategic goals, including: customer satisfaction, operating performance, safety, a productive work environment, financial responsibility, and distribution capability. Based on the premise that "you cannot manage what you cannot measure," WSF constantly gathers performance data and uses the information to measure, monitor, and manage performance. Since December 1998, WSF has collected and published performance information in its quarterly corporate *Performance Measures Report.* Two important WSF performance measures—customer satisfaction and operating performance—are also incorporated in WSDOT's new, quarterly performance measurement report, *Measures, Markers, and Mileposts,* which is available on-line at http://www.wsdot.wa.gov/accounability/default.htm

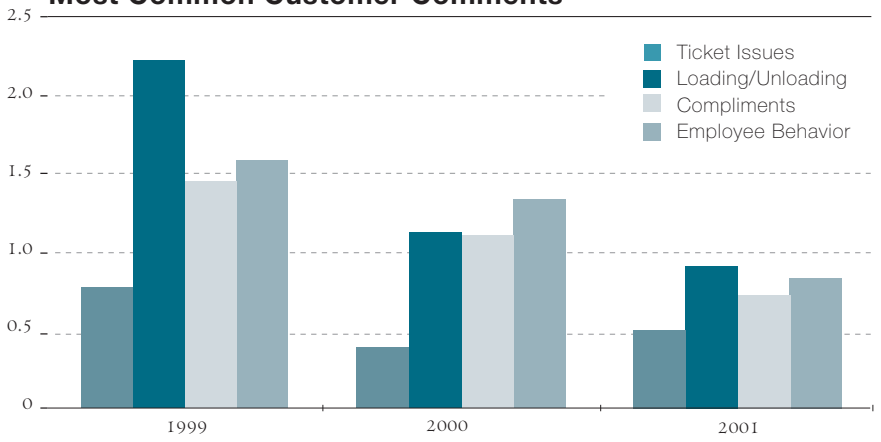
Customer Satisfaction

Customer satisfaction data are collected by WSF's Operations Center staff on a daily basis and compiled in its automated operations support system (AOSS) database. This information is cross-tabulated for measurement and action. WSF's goal to increase customer satisfaction has been met since 1998, when WSF first began collecting this information. The number of complaints per 100,000 customers has reduced by half between 1999 and 2001—from about 12 per 100,000 to fewer than six. In fiscal year 2001, the most common customer comments related to vessel loading and unloading, employee behavior, compliments, and ticket issues.

Total Customer Complaints (per 100,000 Customers)



Most Common Customer Comments



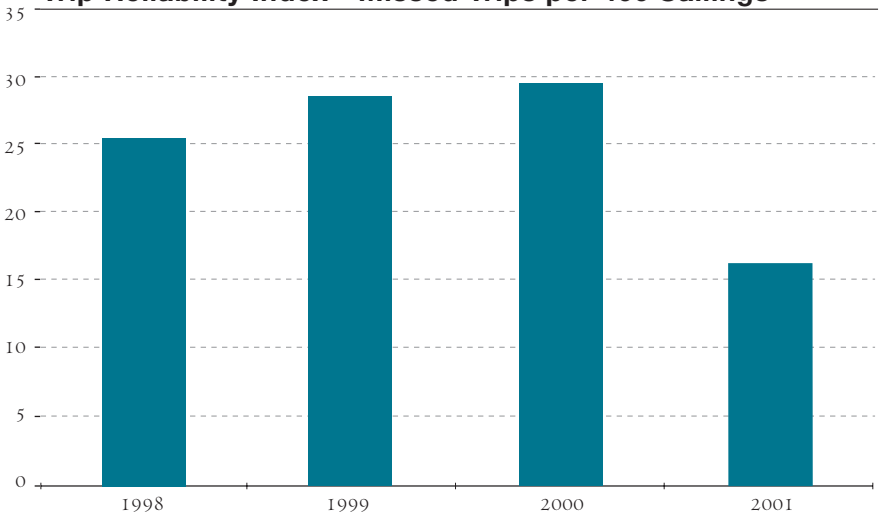
Operating Performance

WSF's operating performance goals are to improve service reliability, and to improve on-time service. WSF has been measuring trip delivery since 1998, and began collecting on-time service data in June 2001 utilizing Global Positioning System (GPS) technology.

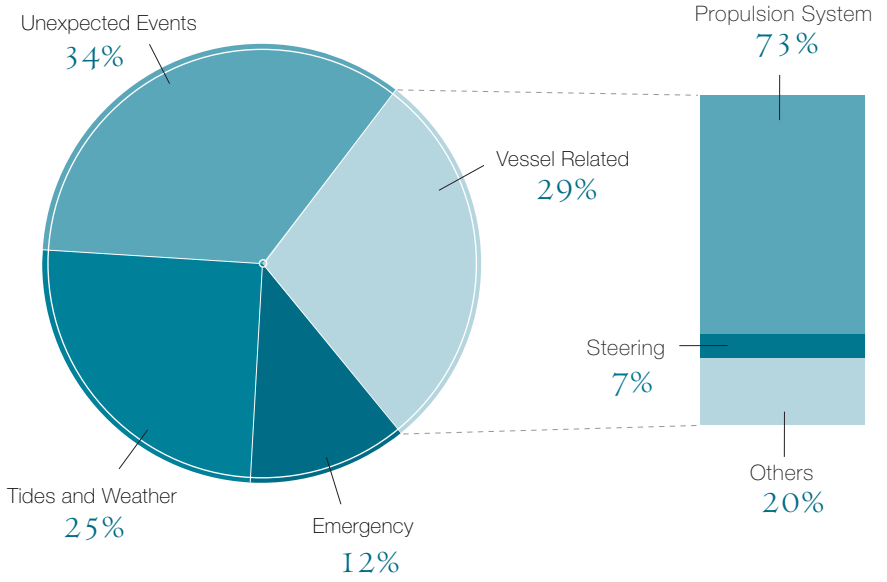
WSF completed 99.6% of its 178,500 scheduled trips in fiscal year 2001. This is the highest rate recorded since WSF began measuring service reliability in 1996. WSF calculates a reliability index, which represents the average number of cancelled trips that an average commuter would experience over the course of one year, assuming a commuter worked 200 days per year and made 400 ferry trips. In 2000, the average number of cancelled trips per commuter per year was approximately three. In 2001, WSF experienced a marked improvement as the number of cancelled trips was reduced by half to approximately 1.5 per commuter per year.

In 2001, WSF cancelled 1,087 trips, of which 355 trips were replaced. The leading causes of missed trips were unexpected events, vessel-related problems, tides and weather, and emergencies. The most common vessel-related problems were attributed to vessel propulsion systems. To address this concern, propulsion system improvements continue to be a focus of WSF's capital preservation program. Unexpected events included such things as vessels diverted by the U.S. Coast Guard to participate in search and rescue operations, and malicious threats against WSF terminals and vessels. All trips cancelled due to tides were on the Port Townsend/Keystone route, which experiences periodic high-current ebb tides. These trips are typically cancelled with advanced notice and some sailings are diverted to later the same day once the water conditions ease. A new class of maneuverable vessels is being considered to replace the aging Steel Electric-class vessels on this route, which would virtually eliminate missed trips due to tide conditions.

Trip Reliability Index - Missed Trips per 400 Sailings



Most Common Trip Cancellation Causes FY 2001



06. PRODUCTIVE WORK ENVIRONMENT


WALLA WALLA

Productive Work Environment

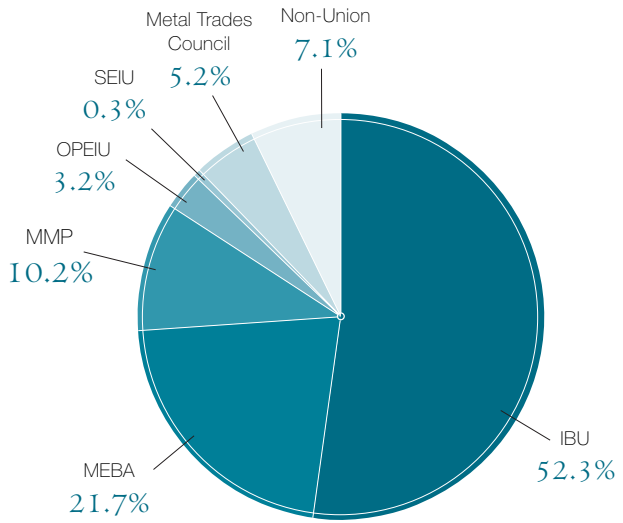
WSF is committed to providing a work environment that enhances its employees' productivity. WSF's goal is to create an atmosphere where each employee feels valued and challenged and possesses the necessary tools to be successful in carrying out their duties. As part of this commitment, in October and November 1999, WSF conducted an employee survey to determine how WSF employees view the organization. The survey included a series of positive statements that the employee could respond to on a scale of 1 to 5, where one represented strongly disagree or very unsatisfied and five represented strongly agree or very satisfied. The results of the survey were compared to a previous employee survey conducted in 1997, and all categories showed improvement. Employees gave the highest ratings to diversity, teamwork, learning development, and job satisfaction. The areas of WSF executive management and recognition/advancement showed the most improvement, but continue to be areas with opportunities for additional improvement. WSF plans to administer the survey every two years.

WSF's workplace is characterized by geographic diversity and significant union representation. About one-half of WSF's employees work on vessels, while the other half work at one of WSF's 20 terminals, the Eagle Harbor maintenance facility, WSF Headquarters, or at a regional office. Over 90% of WSF's employees belong to one of 13 unions and are covered by one of eight separate collective bargaining agreements. The number of employees in each union ranges from about 950 in the Inlandboatmen's Union (IBU) to six in the Service Employees International Union (SEIU). Other unions representing WSF employees are the Masters, Mates & Pilots (MM&P); Marine Employees Beneficial Association (MEBA); Office and Professional Employees International Union (OPEIU); and the Metal Trades Council (a consortium of seven separate trades and craft unions). By statute, each of the eight collective bargaining agreements must be renegotiated every biennium.

Employee Survey Results

Category	1997	1999	%Change
Overall Assessment	2.99	3.44	+15%
Employee Understanding of Vision/Direction	2.77	3.22	+16%
WSF Executive Management	1.98	2.54	+28%
Learning/Skills Development	3.70	3.94	+6%
Teamwork	3.51	3.98	+13%
Meaningful Feedback	3.09	3.71	+20%
Customer Focus	3.17	3.61	+14%
Recognition and Advancement	2.31	2.81	+22%
Trust and Ethical Performance	3.42	3.89	+14%
Communications	2.72	3.25	+19%
Participation and Involvement	3.32	3.86	+15%
Diversity	3.70	4.17	+13%
Job Satisfaction	3.57	3.93	+10%

Percentage of Employees per Union



WSF strengthened its productive work environment this biennium with the safety and training initiatives described in the *Key Themes* section of this report, and by tackling two important employee issues—communications and recognition.

WSF improved employee communications with the publication of *Fleet Focus* in October 1999. This weekly employee newsletter was developed to keep employees apprised of current fleet and departmental developments and to maximize the opportunity to communicate organizational changes and events. In addition, each week the current and year-to-date performance statistics are published so that all WSF employees have the opportunity to measure WSF's performance, observe the performance trends, and become active participants in improving those trends. This weekly publication is sent electronically to all employees with access to e-mail and in hard copy form to all terminals and vessels.

The success of any organization is dependent on the productive contributions of its employees. To acknowledge the many significant contributions made by its employees, WSF developed a formal employee recognition program this biennium. This program began with the formation of an employee recognition committee with members representing each of WSF's major employee groups. The committee was charged with developing policies to acknowledge the many employee contributions that make WSF successful. The policies provide WSF an opportunity to recognize individual employees and employee teams that promote WSF's vision in areas such as safety, customer service, productivity, and quality improvement. WSF plans to hold annual employee recognition celebrations to acknowledge outstanding effort and years of service.

WSF's employees totaled over 1,800 at the end of fiscal year 2001. The majority work in operations to keep the ferry system running smoothly from day-to-day. These employees include the Operations Director; port engineers; employees at the regional offices, operations center, and in operations planning; employees at the 20 terminals; vessel deck and engine room crews; and repair and maintenance crews at the Eagle Harbor Repair Facility. The remaining WSF employees support operations and include employees in vessel and terminal engineering, administrative services, human resources, and public affairs.

The Operations Center Watch Supervisors are WSF's 2001 Team of the Year in the Intact Work Group Division.

Collecting fares.

Controlling the engines.

Gathering customer comments.

Loading a vessel.

Coming in for a landing at Bainbridge Island.

Employee Statistics

Department	No. of Employees
Executive Director/CEO Office	2
Deputy Director/Planning/Program Development/Contracts/Accounting	32
Administrative Services	4
Operations DirectorRegional Offices/Operations Center/Operations Planning	91
Maintenance Department/Port Engineers/Eagle Harbor Repair Facility	119
Vessel Deck Crew	707
Vessel Engine Room Crew	393
Terminals	350
Terminal Design/Construction	55
Vessel Design/Construction	31
Human Resources/Training/Safety/Payroll	29
Public Affairs	1
Total WSF Employees	1,814

Numbers represent WSF employees as of June 30, 2001

07. FINANCE

Finance

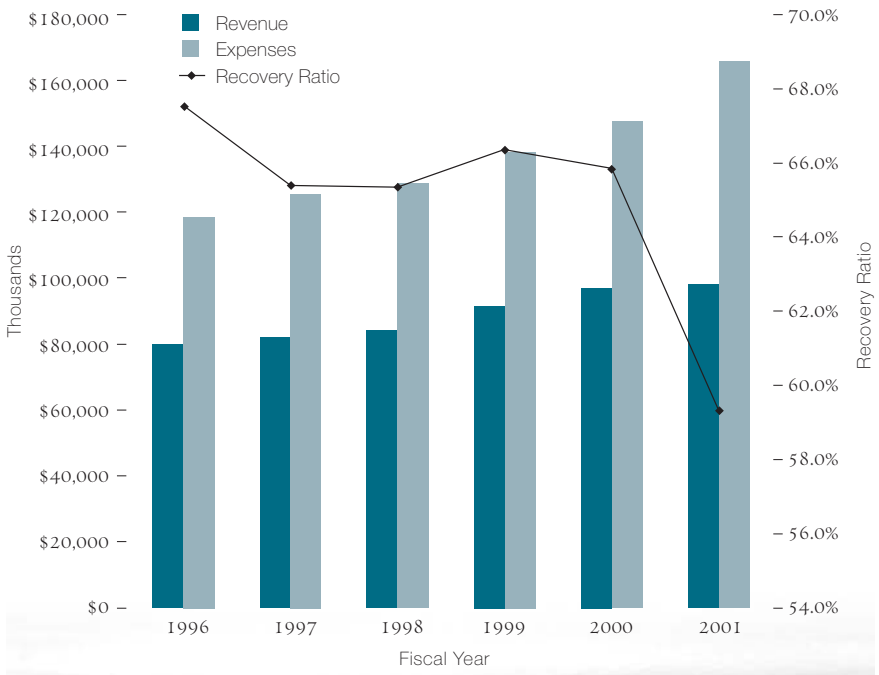
When the ferry system was first purchased by the State from the Puget Sound Navigation Company, it was intended to finance itself solely through the fare box (revenues). The original bonds issued by the Toll Bridge Authority in 1951 required that the system generate net revenues. The ferry system's fare revenues exceeded operating costs until 1960.

Tax support of the ferry system began in 1957 when the State Legislature brought ferry system employees into the State Retirement System. In 1959, the State Legislature created an account, funded by 0.25 cents per gallon of the State's gasoline sales tax, to help pay debt service on revenue bonds issues by the Toll Bridge Authority. In 1960, when operating costs began to exceed revenue received through fares, the ferry system received $672,000 from the State's motor vehicle fuel tax to cover bond payments. Additional ferry system/Hood Canal Bridge bonds were issued in 1963. However, since the early 1970s, all of the debt service payments for the ferry system bonds have come from motor vehicle fuel taxes, not from ferry system operating revenues.

Washington State has continued to provide tax support for the ferry system to supplement revenues from fares and other miscellaneous income. Since the 1970s, state tax sources have included a gasoline sales tax and motor vehicle registration fees. Additionally, WSF pursues federal and local funds for specific projects. The Washington State Transportation Commission mandates that the ferry system fare box generate a minimum of 60% of the system's operating expenses. The remaining expenses are covered by tax support from the State.

In the 1999/01 biennium, WSF's farebox recovery rate was 62.4%. This recovery rate was less than the previous biennium due to a dramatic increase in expenses during fiscal year 2001. The increase was due to three main causes: fuel prices, WSDOT expenditures, and insurance and utilities costs. Fuel prices spiked in 2001 and were $7 million higher than in fiscal year 2000 and even after reducing service hours by 10% in response to I-695. WSF also experienced a significant increase in insurance and utilities costs in fiscal year 2001.

Expenses and Farebox Recovery for 1996-2001

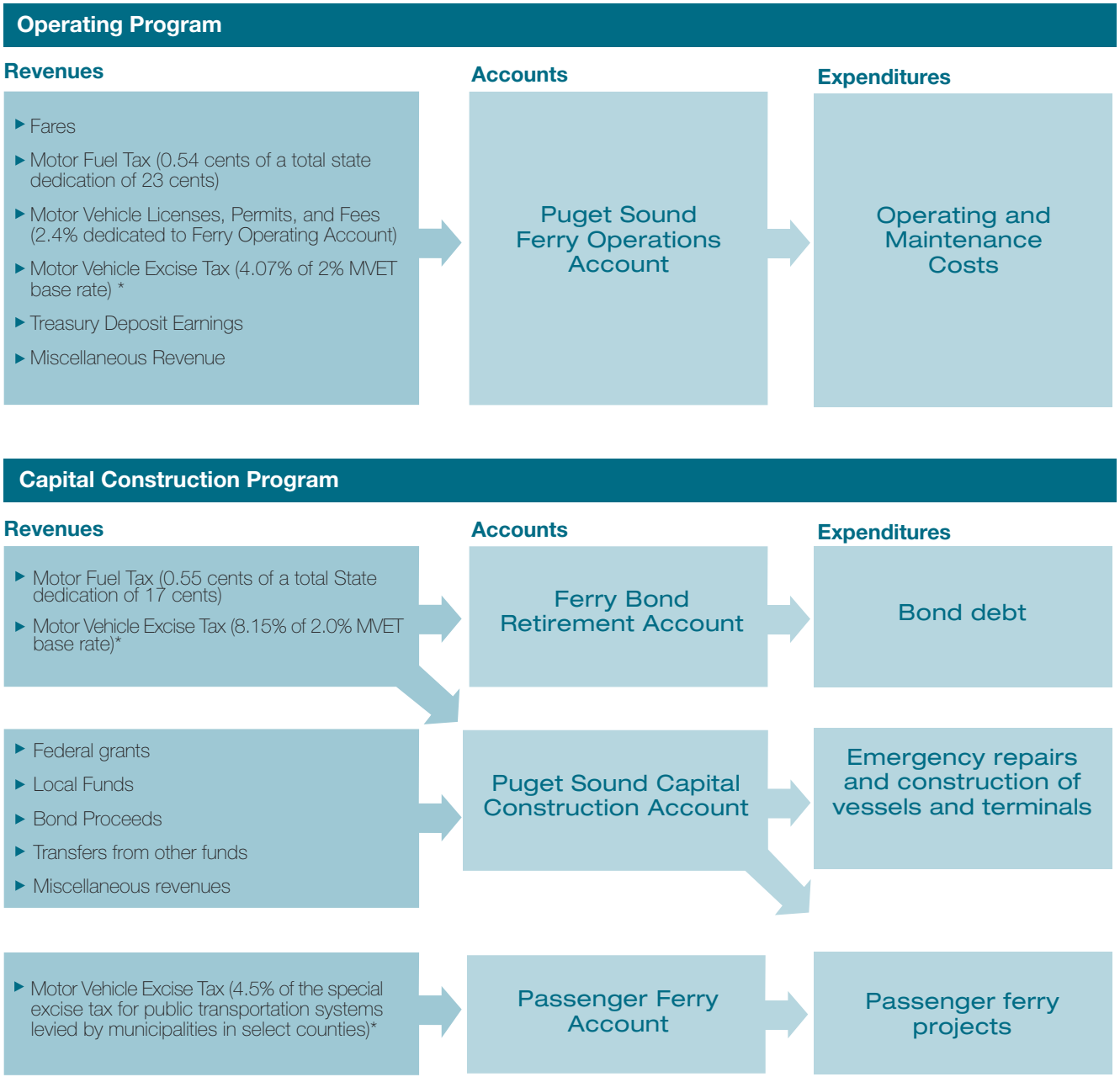


1999/01 Operating and Capital Programs

The sudden loss of MVET and Referendum 49 revenues placed a great deal of strain on WSF's operating and capital budgets during this two-year period, as shown in the following revenue history charts. Although WSF did receive final distributions from MVET in the 1999/01 biennium, MVET revenues constituted a much smaller percentage of program budgets. As a stop-gap measure, the Legislature approved a transportation budget in May 2000 that restored much of the funding lost in the wake of I-695. The Legislature authorized a one-time transfer of funds that would allow the ferry system to operate through June 30, 2001.

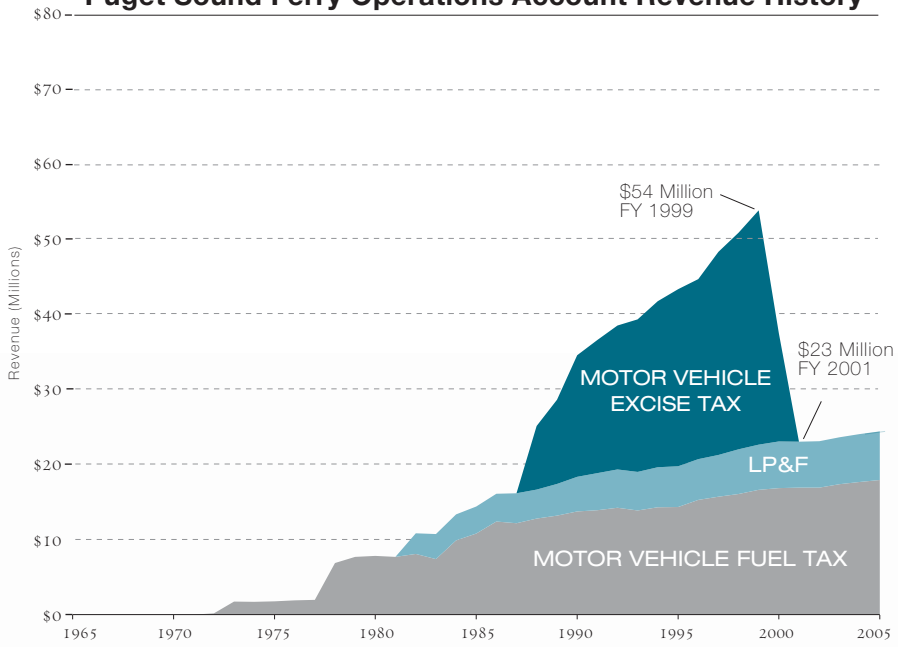
WSF's revenues and expenses are funneled through two programs—the Operating Program and the Capital Program. Both programs are funded through revenues generated by WSF and public subsidies. All of WSF's revenue sources, including federal funding, state funding, bond sales, and fares, are strictly regulated.

Flow of Funds



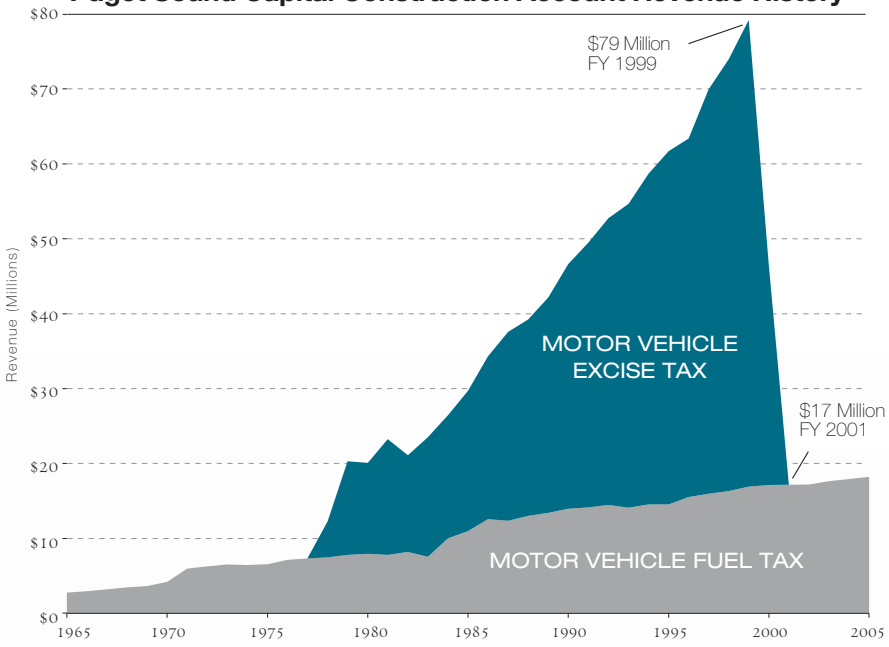
** All MVET distributions and Motor Fuel Tax for Passenger Ferry Account were discontinued in fiscal year 2001.*

Puget Sound Ferry Operations Account Revenue History



LP&F = Motor Vehicle Licenses, Permits and Fees

Puget Sound Capital Construction Account Revenue History



Operating Program

WSF's Operating Program funds day-to-day fleet and terminal operations and maintenance, and WSF management and support. In the 1999/01 biennium, revenues supporting WSF's Operating Program totaled $219 million. Fares and miscellaneous revenues covered about 62% of WSF's total operating expenses over the two-year period. Although MVET distributions represented 21% of WSF's operating program in the 1997/99 biennium, the MVET covered only 5% of operating expenses in the 1999/01 biennium. The remaining Operating Program expenses were covered by motor vehicle license fees, the State motor fuel tax, treasury deposit earnings, the cash balance available from the previous biennium ($109 million), and supplemental revenues provided by the 2000 Legislature. These included transfers from the General Fund ($20 million) and a transfer from the Multi-Modal Fund specifically appropriated to cover the operating costs of passenger-only ferry service for fiscal year 2001 ($5 million).

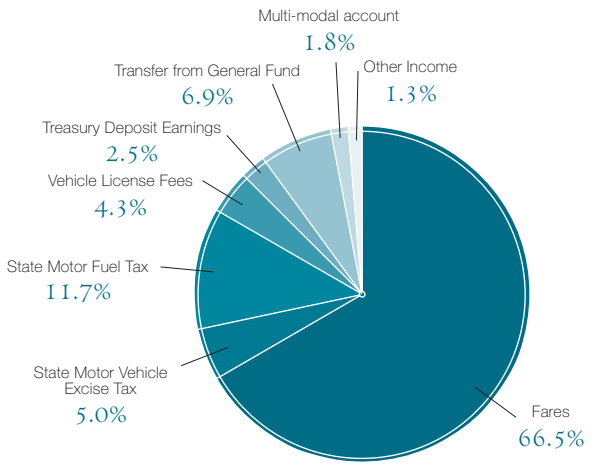
WSDOT spent a total of $313 million on ferry operations, maintenance, and related support activities in the 1999/01 biennium. This level of spending was considerably lower than the original 1999/01 biennial appropriations of $326 million passed by the 1999 Legislature prior to the passage of I-695. Following the passage of I-695, appropriations were reduced by $11 million including $6 million in service reductions. Approximately 73% of the biennium's expenditures were for operations, 12% for maintenance, and 15% supported management and business expenses. Approximately $16 million in cash was carried forward into the 2001/03 biennium.

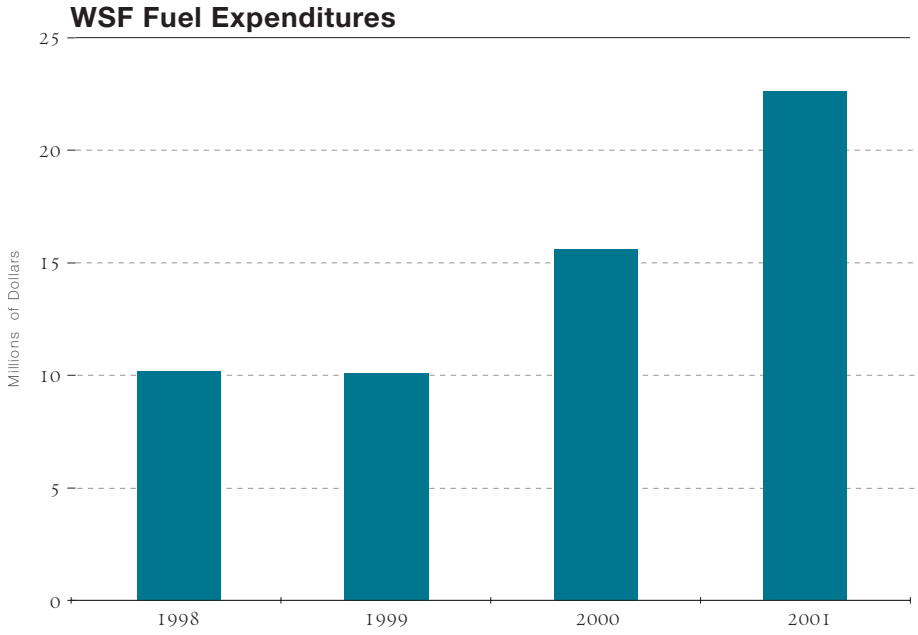
WSF's operating costs in the 1999/01 biennium were $46 million higher than in the 1997/99 biennium. Much of the difference is attributed to introducing new ferries part way through the preceding biennium and the rippling effect on capacity throughout the system. Upsizing vessels throughout the system created a large cost obligation for WSF in the 1999/01 biennium. Rising fuel costs during the biennium also contributed to the increased operating expenses. The original 1999/01 biennial appropriation for fuel was set at $29 million, but final fuel costs totaled $38 million. WSF sought and received additional appropriation authority during the 2001 Legislative session to cover soaring fuel costs. Finally, WSF successfully implemented the Legislative-mandated programs to extend the Safety Management System throughout the system and implement a new training program. These programs had a combined cost of about $6 million.

Operating Program

	1997/99 Biennium (1000s)	1999/01 Biennium (1000s)
Revenue		
Fares	$173,400	$191,783
State Motor Vehicle Excise Tax	59,900	14,414
State Motor Fuel Tax	32,619	33,659
Vehicle License Fees	11,916	12,320
Treasury Deposit Earnings	10,763	7,309
Transfer from General Fund	0	20,000
Multi-modal account	0	5,092
Treasurers Adjustment	0	-1,512
Transfer to Capital	0	-67,000
Other Income	1,642	3,646
Total Operating Revenue	$290,240	$219,711
Expenses		
Operations	$202,526	$240,404
Maintenance	47,387	49,059
Management & Support	14,314	13,856
WSDOT Support	2,563	9,847
Total Operating Expenses	$266,790	$313,167

WSF's Operating Program Revenue Sources-1999/01 Biennium





Capital Program

WSF's Capital Program funds all emergency repairs, vessel and terminal improvements, debt service, and interagency support. The Capital Program is financed separately from the Operating Program through various State accounts. Funds available for WSF's Capital Program during the 1999/01 biennium totaled $213.5 million, down from $268.5 million in the 1997/99 biennium, and down from the $287 million budget that was planned prior to the passage of I-695. Revenues included $90.5 million in revenues from current law sources, $80.8 million in transfers and miscellaneous funds, $40.5 million in federal funds, and $1.7 million in cash carryforward.

Because of limited funding, capital expenditures were lower for both vessels and terminals in the 1999/01 biennium as compared to the 1997/99 biennium. It should be noted that WSF's capital program federal revenues almost doubled in the 1999/01 biennium to $40.5 million, up from $21.5 million in the 1997/99 biennium. This increase was due to WSF's aggressive competition for federal grants. Federal agencies participated with WSF in 20 different construction and equipment purchase contracts. However, over three-quarters of the federal funds supported four projects:

- Renovating the *Yakima*,
- Preserving and adding a second auto deck to the *Chelan*,
- Renovating the *Kaleetan*
- Expanding the Clinton ferry terminal.

The federal role in ferry transportation funding is expected to increase in coming years. USDOT is investing $400 million on ferry services nationwide between 2000 and 2004. WSF hopes to secure approximately $41 million for projects during the 2001/03 biennium. Nearly 90% of those funds will go toward preserving vessels in the Jumbo and Issaquah classes; replacing propulsion controls on the *Elwha, Klahowya,* and *Tillikum;* and acquiring a single replacement vessel for the two retiring passenger-only ferries. The remainder of federal funds will support terminal projects to preserve passenger overhead loading structures at three terminals, plan for construction of a multi-modal terminal at Mukilteo, replace dolphins at the Bainbridge Island Terminal, and install customer information equipment for the Anacortes ferry terminal.

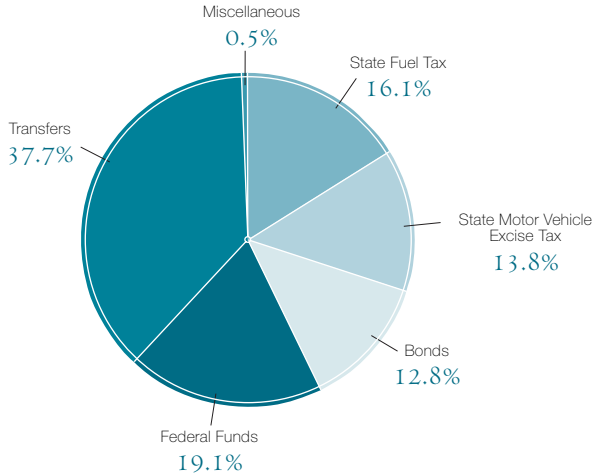
Dock expansion at Clinton.

Capital Program

	1997/99 Biennium (1000s)	1999/01 Biennium (1000s)
Revenue		
State Fuel Tax	$33,310	$34,151
State Motor Vehicle Excise Tax	120,337	29,172
Bonds	73,278	27,183
Federal Funds	21,462	40,472
Private/Local	765	0
Transfers	0	79,756
Miscellaneous*	4,053	1,056
Capital Program Revenue	$253,205	$211,790
Previous Biennium Cash Carryforward	15,118	1,744
Fund Balance Adjustments	128	0
Total Biennium Capital Funds Avaliable	$268,451	$213,534
Capital Program Expenditures		
Emergency Repair	$6,091	$6,955
Terminals	61,932	48,045
Vessels	147,683	104,192
Debt Service and WSDOT/Treasurer Support Programs	51,002	51,857
Total Biennium Capital Expenditures	$266,708	$211,049
Cash Carryforward	$1,743	$2,485

** Includes Interest income*

WSF's Capital Program Revenue Sources-1999/01 Biennium



Future Funding

The financial challenges presented by the passage of I-695 and the subsequent elimination of the MVET will continue to confront WSF in the coming years. WSF entered the post-695 era with considerable cash reserves ($114 million in operating funds), but those funds have been spent on operating and capital costs in the 1999/01 biennium. WSF enters the 2001/03 biennium with approximately $18 million in cash reserves. Since WSF has already spent down its available cash balances, funding deficits will become more pronounced.

Revenue that is currently earmarked for ferry system operating and capital programs under current state law is not adequate to cover WSF's expenses. Between fiscal years 2001 and 2007, WSF is projected to have approximately $1 billion in expenditures, but only $795 million in revenue. In the budget approved at the end of June 2001 for the upcoming biennium, the Legislature recognized that projected revenues for ferry operations would be up to $30 million less than the $322 million appropriated for ferry operations in the transportation budget. The Legislature indicated that a supplemental appropriation would be required in 2002. Transfers from the General Fund, the Multi Modal Fund, and the Motor Vehicle Fund are all possible.

08. LOOK TO THE FUTURE

In its 50th year of service, WSF's vessels shuttle among 20 ports of call from Tacoma to Sidney, BC. Its 1,800 dedicated employees transport more than 26 million passengers each year. The system has been buffeted in recent years by the challenges of regional growth, technological change, and erratic tax revenues, but it has endured and remains an indispensable link in our state's transportation network.

Today Washington State faces critical decisions regarding WSF's future, for a stable source of funding is essential to WSF's continued operation. Looking back over the past 50 years, one sees that the ferry system has faced important crossroads before, such as when the State stepped in after private labor strikes halted ferry operations, resulting in the creation of WSF; or when the State veered away from plans to build three cross-Sound bridges. In retrospect, we look with gratitude to those decision makers who made the ferry system we have today possible. Fifty years hence, when WSF celebrates its 100th birthday, our children and grandchildren will reflect on this era of WSF's history and thank those who crafted a solution to the financial crisis WSF faces today. Finding that solution is the challenge of the 2001/03 biennium.

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